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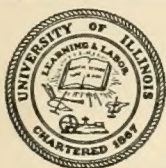






# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
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## HIGHLIGHTS OF BUSINESS IN DECEMBER

The year 1952 ended on a flourishing business scene. The Federal Reserve index of industrial production in December set a new postwar record for the fourth successive month. At 234 percent of the 1935-39 average, the index was not far below the all-time high of 247 attained during the war months of October and November, 1943. Construction outlays were well maintained in 1952, as were expenditures on new plant and equipment. Retail trade reached a new peak at about \$164 billion for the year, largely on the strength of record Yuletide sales.

The cost of living rose somewhat, although wholesale, and especially farm, prices registered declines. Wages advanced to a new-high level. Farm production in 1952 was the second largest in the nation's history, but higher costs cut the farmer's net slightly below that of 1951. Corporate earnings were also down from 1951, but improved in the last quarter. The predominant note in the final month of the year was one of optimism, as evidenced by the upward surge of stock market prices at the year's end to their highest level since 1930.

### Farm Prices Down

Prices received by farmers continued to decline in December. In the month ended September 15, 1952, the index of prices received by farmers dropped 3 percent, mainly as the result of lower prices for cattle, cotton, eggs, hogs, and milk. With prices paid by farmers remaining unchanged, the parity ratio in December fell 3 points to 96. A year earlier, the parity ratio stood at 107.

The Bureau of Labor Statistics comprehensive index of wholesale prices in December was somewhat lower than the November figure of 110.7 percent of its 1947-49 average, thus registering a decline of about 4 percent for the year as a whole.

### Military Deliveries Rise

Military procurement is proceeding at a rapid pace, according to the latest report of the Office of Defense Mobilization. Munitions deliveries plus construction in the last quarter of 1952 amounted to almost \$8 billion, nearly seven times the pre-Korea rate; aircraft deliveries were at the rate of 1,000 per month, a fourfold increase over mid-1950; the machine tool bottleneck has been largely overcome; and allocations of strategic materials have been more than sufficient to meet military needs.

Although deliveries of military goods and construction since Korea aggregate \$48 billion, the bulk of goods for which allocations have been made, \$81 billion, remains to be delivered; this includes, however, items that have not yet been ordered. Some further increase in military deliveries is expected during 1953, but at a much slower rate than that experienced during the last two years. At the same time, the rapid expansion of industrial facilities will permit, in the views of the ODM, progressive relaxation of the Controlled Materials Plan during 1953.

### Consumer Credit at New High

At the end of 1952, American consumers owed more than \$23.0 billion for goods and services purchased on credit. This represents an advance of more than 10 percent over the amount of consumer debt owed at the end of 1951. Almost all of the increase has occurred since May, when Regulation W was revoked by the Federal Reserve Board.

Installment sale credit accounted for the bulk of the increase over the year, rising about \$1.5 billion to nearly \$9.0 billion. Automobile sales credit, comprising nearly three-fourths of the increase in sale credit, constituted the biggest single item, as it invariably has in the past.

### Cash Dividends at Postwar Peak

Investors in American corporations received more publicly-reported cash dividends on their stock holdings in 1952 than ever before, although corporate earnings declined. The reason for the increase in dividend payments was a rise in the proportion of corporate earnings disbursed as cash dividends to 52 percent. Although a postwar high, this disbursement ratio is still far below the 66 percent of earnings paid out during the 1920's and the 76 percent paid out in 1939.

Though cash dividend payments in 1952 averaged about 3 percent higher than in 1951, considerable variation was apparent by industries. The oil, mining, and utility industries accounted for about 90 percent of the net gain, the oil industry alone accounting for nearly half. Higher dividend payments were also made by railroads, rubber, electrical equipment, and paper companies, whereas disbursements sagged in the textile and leather, food, beverages, tobacco, and automobile industries.



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## IN MEMORIAM

It is with deep regret that we mark the passing of the Bureau's former Editor of Publications, Mrs. Hilda R. Stice, who died on January 7, 1953. Mrs. Stice, a valued member of the Bureau staff for more than 20 years, edited the *Illinois Business Review* from its beginning in 1944 until her retirement on September 1, 1952.

## The Role of Monetary Policy

The optimistic view of the outlook for 1953 has been steadily gaining favor. All major sectors of the economy are currently advancing, or at least continuing strong. Fears of the last few months centered on a possible decline in private investment, but the latest reports show strength rather than weakness. Military spending is still rising; and policy in Washington seems to be shaping up to more rather than less aggressive action on the international front. All that is needed to complete the swing in sentiment is full realization that the year-end upsurge in consumer expenditures not only brought a new high in purchases but moved inventories that had earlier been a source of concern.

Thus, the new Administration is taking office in an atmosphere of excitement affecting both domestic policy and international affairs. The problems immediately to be faced, however, are essentially those we have had to live with ever since the Korean outbreak.

"Hard money" men are playing a more important part in the Republican administration; but at the same time Congressional tax cutters are having a field day over proposed reductions, thus posing a threat of further increases in the deficit. Cutbacks in Federal expenditures have been promised but there is a strong likelihood that armament programs will be raised rather than lowered, not only to keep pace with the rising tempo of international affairs but to compensate for lags in the military programs of our European Allies.

### Resort to Monetary Measures

There is some likelihood that the Administration will seek relief from these conflicting pressures through the use of monetary measures. The pattern for such a turn of events has already been well established in Europe,

where various governments have seized upon this approach as a possible way of escaping their own intractable difficulties. In such circumstances, governments are willing to try anything that promises to be helpful, particularly if its use will allay the criticisms of strong groups who urge such action.

Both England and France have in the past year moved away from "cheap money" policies. Both have put central bank discount rates up to 4 percent. There has been a related firming of interest rates in the open market.

Just what effect the interest rates increases and other monetary measures have had is not easily ascertained. Recent economic changes have been parts of a complicated situation in which the broad currents of activity may be little affected by policy changes.

One thing is clear. Such action is taken at considerable expense to government budgets, the increase in interest charges depending upon the size of the public debt; and insofar as the debt is in foreign hands, the balance of payments is also adversely affected. As against this loss, counterbalancing gains are hard to find.

The decline of private investment in Britain, which affected both capital expenditures and inventory holdings, played an important role in reducing inflationary pressure but may be attributed to other developments in the world economy—particularly the boom and recession in the United States. Currently, with the United States moving into a new boom, Britain's balance-of-payments problem is somewhat relieved, just as it was in the early months following Korea. As before, this may be but a temporary phase; so it can hardly be said that any real solution of its problems has been achieved.

In France, the measure of stabilization achieved under Pinay—despite continuing deficits and increases in the money supply—was partly the counterpart of the worldwide recession, as in Britain; but it also represented the response of a people made desperate by a constantly deteriorating situation, who put aside, temporarily, some of their efforts to gain the maximum of personal advantage. The promise of a more stable and secure political position under NATO and the European Defense Community also contributed something by reducing the incentive to speculate against the franc. Now that Pinay has fallen, the whole fabric has been torn asunder. Under the new regime, nationalism seems to be gaining ascendancy, to such an extent that the treaties may be abrogated. This is the path to chaos. If it is followed, recurring economic emergencies will likely become more acute than before.

In Western Germany, interest rates have been very high throughout the postwar period. Costs of obtaining business capital were therefore high; but under the prevailing wage-price structure, anyone otherwise in a position to produce could make a profit by borrowing on short term—a profit usually sufficient to enable repayment within a relatively short time. Hence, even long-term needs for fixed capital were frequently financed by bank loans. With the recent improvement in economic conditions, rates have begun to be lowered toward the level prevailing in other countries. The high interest rates and other aspects of credit policy during these postwar years did help to rule out new residential construction. But this has aggravated the housing problem; for overcrowded, substandard dwellings are one of the most unsatisfactory aspects of current living standards in Germany, and amelioration of these conditions is bound to be a major issue in the years ahead.

(Continued on page 6)



## MEAT PACKING IN ILLINOIS

About one-quarter of the food budget of the average American family is currently spent on the products of the meat-packing industry. During the postwar years, consumption of meat products has averaged nearly 150 pounds per capita.

It is therefore not surprising that the meat-packing industry is one of the largest and most important industries in the United States. The wholesale value of its products in 1951 was over \$11.6 billion. It is the leading industry in 10 states, the second largest in 6 states, and the third, fourth, or fifth largest in 11 states.

### Growth of Meat Packing

The first meat-packing plants in the United States were located in the eastern river towns, where there was good water transportation and sewage facilities. With the opening of the West and particularly after the development of railroads, the eastern river towns lost their hold on the packing industry to centers located at railroad junctions or shipping points nearer the western sources of supply.

The first warehouse in Illinois for packing beef and pork was established in Alton in 1821. Beardstown, Quincy, and Peoria soon followed. Chicago's first slaughterhouse was not built until 1827, when Archibald Clybourne erected facilities to prepare meat for Fort Dearborn.

By 1844, Chicago boasted four meat-packing plants. By 1851 this number had grown to eight, and with the opening of the Chicago and Michigan Canal and the first spur-line railroads out of Chicago, the city began to increase its meat-packing operations even more rapidly. In 1861-62, Chicago topped the half-million mark in live-stock dressed and became the meat capital of the nation, a title she still holds.

Except for local markets, the packers of this period produced nothing but cured and salted meats. Meat packing in the modern sense of the word did not begin until the science of refrigeration developed to a point where meat could be kept safely in storage. Development of the refrigerator car for shipping meat began in the decade following the Civil War. The first cars were chilled with ice before loading and were re-iced several times en route. About 1877, a railroad car using brine tanks filled with ice and salt was developed, which gave longer-lasting lower temperatures. It was a great improvement, but the advent of artificial ice producing machinery about 1880 initiated the decline in the use of natural ice.

### The Industry in Illinois

Illinois surpasses all other states in the size of its meat-packing industry, ranking first in number of employees, wages and salaries paid, and value added. In 1947 there were 100 meat-packing establishments in Illinois, about one-third of which were located in Chicago. Smaller concentrations were located in East St. Louis, Peoria, and other points throughout the State.

Statisticians of the American Meat Institute have estimated that well over one-half million people in the Chicago area alone are directly or indirectly dependent on the packing industry for their income. Add to this figure the large number of workers in packing houses in other Illinois communities and the large numbers of Illinois farmers who sell their cattle, hogs, and sheep to these packers, and the importance of the industry to Illinois can readily be seen.

Perhaps the principal reasons for the growth of Illinois to its present position in the packing industry were its geographic location between the meat-growing area and the meat-consuming population, and the fact that its position on the rail lines made it the logical market and slaughtering point for eastbound meat animals.

In recent years, however, the importance of this strategic location has been diminishing. The increased use of motor trucks has enabled farmers to bring live-stock directly to nearby packing plants where they can be dressed before rail shipment. Because only one-half to three-quarters of the live weight of an animal is ever converted to meat, substantial shipping costs are saved in this manner. As a result, Iowa, Missouri, Texas, and California have become relatively stronger competitors.

### By-products, Diversification, and Profits

The old bromide that a packer uses everything but the squeal is not literally true, but an amazing number of uses have been found for the by-products of meat packing. Much of the profit of the industry comes from these by-products, and the packers quite often pay more for the live beef animal than is realized from the sale of the meat.

Search for additional uses of the 140-odd by-products of meat packing has led meat-packing firms into many industries which at first glance appear totally unrelated to the process of meat packing. The large quantities of leather and sheep gut produced in the packing process led Wilson into the sporting goods business where it is currently the leading producer. Similarly, Swift, in order to dispose of the large quantities of bones which are left when the meat is packed, has become one of the leading plant food producers. The refrigeration facilities available to the packers have also led them into the processing and distribution of other foods, such as dairy, poultry, and a variety of frozen food products.

More recently, the value of animal glands and extracts in the production of medicines is making the packing industry more and more essential to the pharmaceutical industry. Insulin has long been made from animal glands provided by the meat packers. Armour is currently completing a pharmaceutical plant at Bradley, Illinois; it is a leader in production of the new miracle drug ACTH and several others whose nature and uses are just being discovered.

The future of the industry seems to depend in large measure on its ability to find new uses for its by-products and to diversify into lines efficiently related to its main processing and distribution functions.

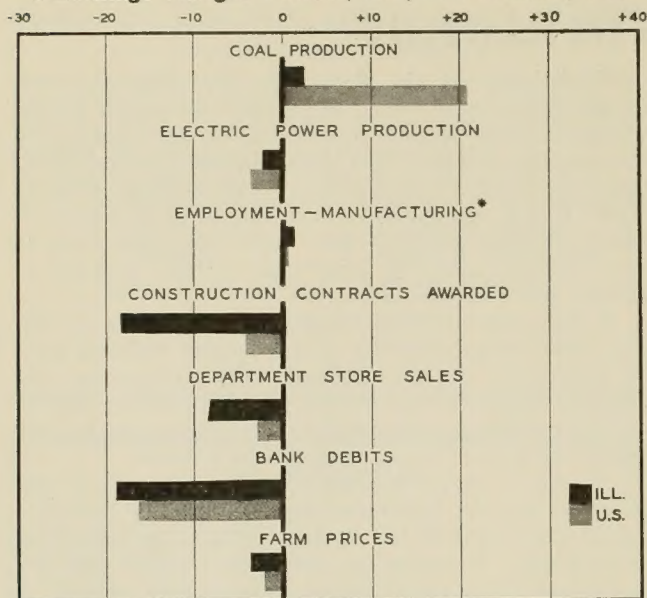
# KNOW YOUR STATE



# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes October, 1952, to November, 1952



\* September, 1952, to October, 1952.

## ILLINOIS BUSINESS INDEXES

Item	November 1952 (1947-49 = 100)	Percentage Change from	
		Oct. 1952	Nov. 1951
Electric power <sup>1</sup> .....	148.1	- 1.8	+12.7
Coal production <sup>2</sup> .....	81.0	+ 2.1	-21.0
Employment—manufacturing <sup>3</sup> ..	105.5	+ 0.9 <sup>a</sup>	+ 0.9 <sup>b</sup>
Payrolls—manufacturing.....	n.a.		
Dept. store sales in Chicago <sup>4</sup> ..	98.3 <sup>c</sup>	- 8.1	- 8.0
Consumer prices in Chicago <sup>5</sup> ....	115.2 <sup>d</sup>	+ 0.1	+ 0.9
Construction contracts awarded <sup>6</sup>	147.1	-18.1	- 6.9
Bank debits <sup>7</sup> .....	117.9	-18.8	- 6.7
Farm prices <sup>8</sup> .....	107.5	- 3.8	- 8.3
Life insurance sales (ordinary) <sup>9</sup> ..	127.3	- 7.0	+ 4.4
Petroleum production <sup>10</sup> .....	91.0	- 4.2	- 0.5

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.  
<sup>a</sup> September, 1952, to October, 1952. <sup>b</sup> October, 1951, to October, 1952. <sup>c</sup> Seasonally adjusted. <sup>d</sup> On 1935-39 base, the index was 196.0. n.a. Not available.

## UNITED STATES MONTHLY INDEXES

Item	November 1952	Percentage Change from	
		Oct. 1952	Nov. 1951
Personal income <sup>1</sup> .....	Annual rate in billion \$ 276.1 <sup>a</sup>	+ 0.1	+ 5.8
Manufacturing <sup>1</sup> .....			
Sales.....	286.8 <sup>a</sup>	- 3.2	+ 6.7
Inventories.....	43.4 <sup>a, b</sup>	0.0	+ 1.6
New construction activity <sup>1</sup> .....			
Private residential.....	12.4	- 1.4	+11.1
Private nonresidential.....	10.6	- 6.0	- 0.5
Total public.....	10.6	-13.8	+ 9.4
Foreign trade <sup>1</sup> .....			
Merchandise exports.....	n.a.		
Merchandise imports.....	n.a.		
Excess of exports.....	n.a.		
Consumer credit outstanding <sup>2</sup> .....			
Total credit.....	22.8 <sup>b</sup>	+ 2.3	+14.1
Installment credit.....	15.9 <sup>b</sup>	+ 2.0	+19.7
Business loans <sup>2</sup> .....	22.9 <sup>b</sup>	+ 2.7	+ 9.6
Cash farm income <sup>3</sup> .....	42.3	-13.9	- 4.5
Indexes (1947-49 = 100)			
Industrial production <sup>2</sup> .....			
Combined index.....	126 <sup>a</sup>	+ 1.7	+ 6.4
Durable manufactures.....	139 <sup>a</sup>	+ 0.7	+ 8.3
Nondurable manufactures.....	115 <sup>a</sup>	+ 1.0	+ 4.8
Minerals.....	120 <sup>a</sup>	+ 6.7	+ 2.9
Manufacturing employment <sup>4</sup> .....			
Production workers.....	107 <sup>a</sup>	+ 0.8	+ 3.5
Factory worker earnings <sup>4</sup> .....			
Average hours worked.....	103	- 0.5	+ 1.7
Average hourly earnings.....	129	+ 0.6	+ 5.5
Average weekly earnings.....	133	+ 0.1	+ 7.3
Construction contracts awarded <sup>5</sup>	163	- 4.0	+34.0
Department store sales <sup>2</sup> .....	112 <sup>a</sup>	- 2.6	- 0.9
Consumers' price index <sup>4</sup> .....	114 <sup>c</sup>	+ 0.1	+ 1.3
Wholesale prices <sup>4</sup> .....			
All commodities.....	111	- 0.4	- 2.6
Farm products.....	104	- 1.0	- 7.3
Foods.....	108	- 0.7	- 3.0
Other.....	113	- 0.2	- 1.5
Farm prices <sup>3</sup> .....			
Received by farmers.....	103	- 1.8	- 8.0
Paid by farmers.....	113	- 0.4	- 1.1
Parity ratio.....	99 <sup>d</sup>	- 1.0	- 6.6

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> On 1935-39 base, 191.1. <sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1952					1951
	Dec. 20	Dec. 13	Dec. 6	Nov. 29	Nov. 22	Dec. 22
Production:						
Bituminous coal (daily avg.).....thous. of short tons..	1,702	1,666	1,673	1,800	1,738	1,789
Electric power by utilities.....mil. of kw-hr.....	8,280	8,140	8,165	7,701	7,971	7,824
Motor vehicles (Wards).....number in thous.....	127.9	115.4	123.3	113.3	123.5	102.8
Petroleum (daily avg.).....thous. bbl.....	6,525	6,477	6,394	6,587	6,582	6,115
Steel.....1935-39 = 100.....	250.6	247.3	244.3	246.9	247.8	234.9
Freight carloadings.....thous. of cars.....	710	721	719	670	811	671
Department store sales.....1947-49 = 100.....	237	223	195	138	134	228
Commodity prices, wholesale:						
All commodities.....1947-49 = 100.....	109.3	109.6	110.0	110.0	110.3	113.5
Other than farm products and foods.....1947-49 = 100.....	112.8	112.8	112.8	113.0	113.0	114.6
22 commodities.....1947-49 = 100.....	89.7	90.6	91.3	91.3	91.5	109.3
Finance:						
Business loans.....mil. of dol.....	23,236	23,136	22,949	22,876	22,862	21,442
Failures, industrial and commercial.....number.....	141	157	120	127	167	117

Source: Survey of Current Business, Weekly Supplements.



# RECENT ECONOMIC CHANGES

## Capital Goods Demand High

Businessmen expected to spend record amounts for new plant and equipment in the last quarter of 1952 and the first quarter of this year. Capital outlays for the fourth quarter of 1952 and the first quarter of 1953 were scheduled at seasonally adjusted annual rates of \$28.3 billion and \$28.7 billion, respectively, according to a joint report of the Department of Commerce and the Securities and Exchange Commission. This compares with actual expenditures of \$27.4 billion for each of the first two quarters of 1952 and \$25.7 billion for the third quarter. Because of the steel strike, third quarter outlays were about 10 percent under those previously anticipated.

If expenditures in the final quarter of 1952 were up to earlier expectations, outlays for the year totaled about \$27 billion, 2 percent above 1951. New investment by manufacturing concerns amounted to \$12.5 billion, 12 percent above 1951, with most of this rise concentrated in defense-related industries, particularly chemicals, iron and steel, and petroleum. Capital expenditures by public utilities in 1952 were only slightly higher than in 1951. In contrast, railroad, nonrail transport, mining, and commercial companies moderately reduced investment from 1951 rates.

## Life Expectancy of New Firms

If business life expectancy figures for recent years remain valid for the next two years, new businesses or established concerns transferred to new owners this month will have about a fifty-fifty chance of remaining in operation until the end of 1954. A recently published study by the Department of Commerce shows that about half of the more than 5 million firms newly established or acquired by transfer in the postwar years were sold

or liquidated within 2 years. However, lack of profitability was not the only reason for the sale or liquidation of these businesses. Many were given up because of illness or retirement of the owner, or because of a more promising opportunity in another business.

As a firm grows older, its chances of remaining in business another year increase. Based on the average 1945-50 experience, the chances are only 2 out of 3 that a new firm will survive its first year of operation. By the time a firm is a year old, the chances of continuing another year have increased to nearly 3 out of 4; and after 5½ years of operation, 9 out of 10 firms can expect to stay in business another year.

Considerable variation exists in the life expectancy among different industry groups. As shown by the accompanying chart, wholesalers have the highest probability of remaining in business another year, regardless of the age of the firm. For example, 80 percent of wholesale firms just starting in business can anticipate operating a full year, compared with 64 percent for retailers and 67 percent for manufacturers. When the age of the firm is 5½ years, 96 percent of wholesale businesses, 83 percent of retail establishments, and 86 percent of manufacturers will continue in operation another year.

## Record Dollar Volume for New Construction

Government agencies and private individuals paid more for new construction put in place last year than in either of the two preceding years. Dollar outlays for new construction, up almost 5 percent from 1951, reached a record \$32.3 billion. The rising trend is due mainly to higher building costs, as physical volume dropped somewhat below both 1951 and the record 1950 level.

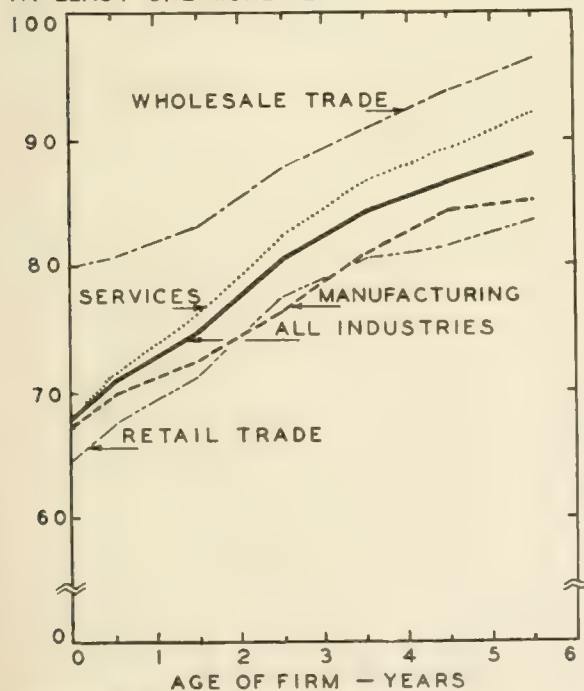
Private construction totaled \$21.8 billion, slightly above the \$21.7 billion in 1951. The increase resulted largely from the unusually high volume of private dwellings begun in the fall of 1952. In the private nonresidential sector, substantial declines in expenditures for stores, garages, and restaurants were offset by advances in public utility and industrial building projects.

Both residential building, which accounted for slightly over half of all private outlays, and other private construction remained above public construction despite a substantial advance in the latter category. Public outlays amounted to \$10.5 billion in 1952, up 15 percent from 1951. Expenditures rose in all major categories, with particularly sharp increases for military facilities, highways, and factories.

## Price Indexes Revised

The Bureau of Labor Statistics has revised its daily index of basic commodities traded on spot markets and organized exchanges. Two important changes were made. First, the base period was shifted from the August, 1939, average to the average of commodity prices during 1947-49. This improvement was made to permit easier comparison with postwar prices. Second, six commodities — barley, coffee, flaxseed, shellac, silk, and steel scrap traded on the Philadelphia market — were dropped from the index. The Bureau felt that the prices of these commodities had become too stable and that the deletion was necessary to keep the index as sensitive as possible to market fluctuations. All of the 22 commodities now included are either raw materials or other commodities very close to the initial production stage.

LIFE EXPECTANCY OF BUSINESS FIRMS  
PCT. OF FIRMS SURVIVING  
AT LEAST ONE MORE YEAR



Source: U. S. Department of Commerce

Major revisions have also been made in the consumers' price index. Of the changes made, four are most important. First, the base period has been shifted from the 1935-39 average to the average of prices during 1947-49. Second, additional items have been priced. The new index will include over 300 items, 90 of them foods, compared with the old series, which priced about 200. Third, the weights assigned the items priced have been brought up to date to reflect the present pattern of consumer buying habits. This improvement was made on the basis of a comprehensive survey of consumer expenditures conducted by the BLS in 91 cities for the year 1950. Fourth, the list of cities in which prices will be collected will be representative of all urban places, ranging in size from New York City down to towns of 2,500 population. The old series used data collected almost entirely from large cities. The first revised index will be the figure for January, 1953, to be published late in February.

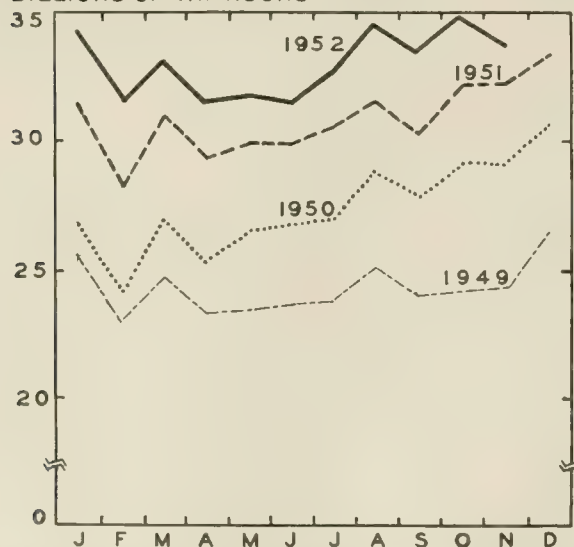
### Electric Power Production Declines

Electric power output dropped more than seasonally in November as private and public utilities produced somewhat less than 34 billion kilowatts. This was 3 percent below October, but 1 percent more than in November a year ago.

The steady rise in electric power production that has occurred in recent years (see accompanying chart) is expected to continue in 1953. Scheduled increases in generating capacity for the new year have been estimated at 12 million kilowatts by Edison Electric Institute. This will be in addition to that part of 1952's expansion, 3 million kilowatts, planned but not completed last year. Privately-owned utilities are undertaking about two-thirds of the new expansion and expect to spend almost \$3 billion for plant and equipment in 1953.

The new, more efficient plants will make possible sharp reductions in fuel consumption. Present designs call for consumption of only two-thirds of a pound of coal for each kilowatt-hour produced. This compares with slightly more than one pound consumed for each kilowatt-hour actually produced in 1952. Within this average, however, the most efficient plants now in operation use only three-fourths of a pound of coal for each kilowatt-hour.

**ELECTRIC POWER PRODUCTION BY UTILITIES**  
BILLIONS OF KW-HOURS



Source: Federal Power Commission.

## The Role of Monetary Policy

(Continued from page 2)

### Effects of Monetary Action

Considered in broad perspective, monetary controls have shown but limited effectiveness in coping with the more powerful forces determining economic conditions. Monetary measures everywhere come into conflict with the other goals of human action because they have to restrict something to be effective. They may conflict with the desire for higher living standards, with outlays needed to improve efficiency, or with defense programs.

Like any other type of control, their effectiveness is dependent upon adequate public cooperation and support. In Europe, no more than in this country, has there been displayed any overriding desire for stabilization. Holders of liquid capital may hope to gain from deflation; but producers, working classes in general, want higher incomes and by implication are willing to have prices rise. The working out of such pressures prevents monetary measures—like others that affect the interests of important groups—from being an economic panacea.

In this country, we are faced with special circumstances that pose a serious question for monetary policy. Inflationary pressures may again develop; but resulting price rises seem unlikely to be large unless some unforeseen contingency cuts farm production and pushes the cost of living up. Even so, any new upsurge is likely to be quite limited in extent and in duration. Year by year capacity to produce in excess of normal demands increases. Except in conditions leading to all-out war, there can be no lasting or severe inflation in this country.

In other words, any inflationary bulge will tend to be temporary and self-correcting. To undertake sharp monetary correctives in these circumstances is not without risks. The initial effect of such action tends to be the reverse of what is desired. Whenever controls are tightened or relaxed, the monetary authorities in effect announce that conditions are inflationary or deflationary; and the public response is, for a time, to speed up the pace of activities that were supposed to be restrained. Hardly a postwar year is without an example of how changes in policy aggravated a state of either undue confidence or unjustified pessimism. Giving the present boom a push in the form of such a perverse reaction can only aggravate its excesses and increase the severity of the subsequent setback.

From a longer-run point of view, also, the basic situation presents unfavorable prospects for action by the monetary authorities. If the international situation should remain stable or gradually become more quiet, military programs will tend to drop back and business will decline—a development for which they can hardly be said to seek credit. If, on the other hand, tension mounts toward a full war situation, the problems of an ever-expanding military effort will gain overriding importance; and not only will they be put in the position of reversing their action but the burden of government finance will be increased. With so little that can be accomplished, it might seem the wiser course to ride out the boom on something like the present terms.

Nevertheless, as other proposals for dealing with our enduring economic and political problems prove unacceptable or unworkable, the inclination to fall back on the monetary "panacea" may become well-nigh irresistible. It is hardly probable, however, that the basic problems can be met by any such show of keeping the situation under control.

VLB



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

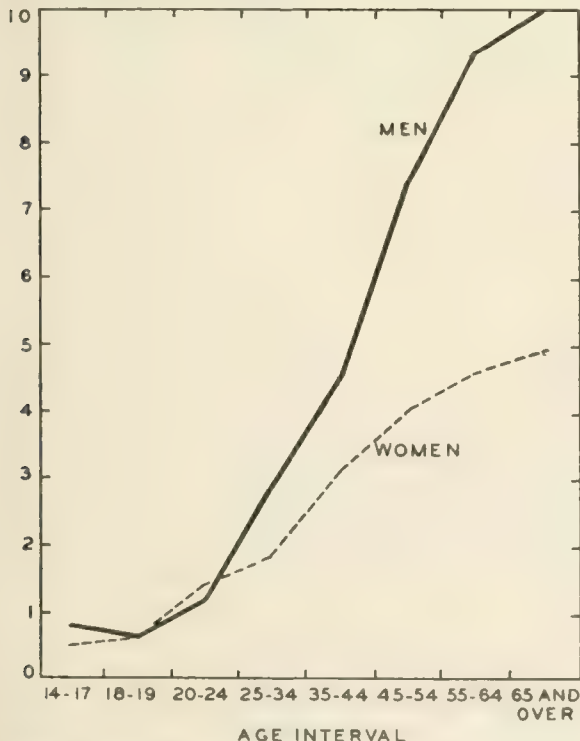
### Mobility of American Labor

Job tenure of American workers varies directly with age, according to an article in the September *Monthly Labor Review*. Of all workers who in January, 1951, held jobs acquired before World War II, 68 percent were 45 years old or over. The median number of years worked in the same job differed substantially by sex, as shown in the accompanying chart. In the adult age groups, a large number of women drop out of the labor market when they marry or at least temporarily when they bear children. At age 20, length of tenure was about the same for both sexes; but by age 65, the median number of years men had worked for the same employer was twice as many as those worked by women.

Race and occupation also influenced labor mobility. For both sexes and among farm and nonfarm work, white employees recorded longer job tenure than nonwhite because of the greater concentration of nonwhites in temporary and characteristically unstable work. Farmers and farm managers had by far the longest tenure. Fifty percent were employed on their 1951 jobs before World War II. Thirty-three percent of all managers, officials, and proprietors, 28 percent of craftsmen and foremen, and 25 percent of professional and technical workers reported having a job acquired before 1942. But only 11 percent of laborers (except farm, 18 percent) and 14 percent of sales personnel and service workers (except household, 10 percent) had the same job as before World War II. A sizable difference in the length of job tenure was noted between self-employed and wage or salary workers in every occupation.

#### JOB TENURE BY SEX AND AGE GROUP

MEDIAN YEARS WORKED  
FOR SAME EMPLOYER



Source: *Monthly Labor Review*, September, 1952

### Paper Hanging Simplified

A new adhesive for hanging wallpaper which is applied to the wall rather than to the paper is made by Commercial Packaging Company, Hammond, Indiana. Called "EZe-Hang," the product comes ready-mixed in liquid form and will adhere to almost every surface: enamel, canvas, wood, masonite, paint, or other wallpaper. The adhesive is easily and quickly applied to the wall with any standard paint roller and the dry wallpaper is then put on. If the paper hanging must be stopped after the liquid is already on the wall, it can be left and later reactivated by sponging the surface with water.

An additional feature is that wallpaper put on with EZe-Hang can be taken off easily. When the paper is completely saturated with water, it will strip off in undamaged sheets. The new adhesive, retailing in most parts of the country for \$2.49 a gallon, will soon be available.

### Combined Cash Register and Adding Machine

A "small business" cash register with a built-in adding machine has been developed by the National Cash Register Company. The new model, which puts out a dated, itemized printed receipt for the customer and an audit strip for the merchant, can be converted to an adding machine by moving the register's control lock. Thus the owner can balance his cash, prepare bank deposits, and perform similar operations on the adding machine without disrupting cash register totals or the audit strip. The machine is marketed in three models—one for cafeterias, one for the small self-service check out store, and one for general use. It was developed principally for stores with only one salesperson plus the proprietor, and it sells for approximately \$600.

### Disposable Saw Blade

A disposable circular saw blade has been introduced to the woodworking industry. Designed for users who don't want to be bothered with resharpening blades, the new hard-tip tool stays sharp from four to six times longer than conventional blades and offers a saving of from 50 to 60 percent, according to the manufacturers, F. Heinemann Saw and Manufacturing Company, Canton, Ohio. Produced in all standard sizes, the blades are available in hardware and woodworking supply shops throughout the country.

### Life Insurance Ownership

Three out of every four families in the United States own some type of life insurance, according to the 1952 *Life Insurance Fact Book* (published by the Institute of Life Insurance, 488 Madison Avenue, New York, N.Y.). Of the three general types available in 1951, ordinary life insurance accounted for 63 percent of total protection; industrial insurance—the small-unit, weekly premium type—14 percent of aggregate coverage; and group life insurance, newest of the three types, 23 percent of total protection. Per capita ownership of life insurance ranged from a low of \$500 in Mississippi to a high of \$2,600 in the District of Columbia. (In Illinois, it was

(Continued on page 9)

# ECONOMIC INFLUENCES ON THE STOCK MARKET

BURTON C. HURD, Investment Analyst

The present boom in business is well advanced, and the stock market, which is a reflection of this boom, finds itself at a 22-year high, having recently broken into new high ground. This raises the question, What will 1953 hold for business and the market for equities? Before looking ahead, it seems apropos at this time to first look backward to examine some of the basic reasons for the high level of both business and the market.

## Background for a Rising Market

The outbreak of World War II forced us to build a war machine quickly as we found ourselves unprepared to fight a global conflict. In the early years of that conflict were sowed many seeds of the inflation which characterized this period of our economic history.

The enormous procurement needs of our Government absorbed supplies of raw materials and finished goods of all kinds to such an extent and for such a duration that following the war, when controls were released, the flood of pent-up demand created additional and tremendous pressures on the supply of both hard and soft goods. Something had to give and, as expected, the price level did just that. Plant and equipment were woefully inadequate for this emergency and the demands for its construction only swelled the shortages of basic materials.

The labor market, too, felt the pinch of demand. A tight union control and a friendly Government policy towards labor was successful in steadily pressing wages to higher levels. Virtually full employment at rising wages and an increasing purchasing power, coupled with good foreign demand, placed the farmer in the most prosperous condition he had enjoyed since World War I.

This period was financed by an ample supply of cheap money and credit. During the war years unbalanced budgets forced us into a heavy debt position, much of which found its way into our banking system. To date this easy money policy has been largely maintained.

Family formation was greatly increased. This fact, coupled with the process of family unscrambling that took place after the war, accentuated the pent-up demand for housing with all its complementary requirements.

The outbreak of the Korean War brought with it a renewed fear of scarcity supplanting a then growing feeling of plenty, and once again many of the factors present at the outset of World War II began to reassert themselves, although to a milder degree. But this time, save for the fighting men, we are enjoying a guns-and-butter economy due to capital outlay for plant and equipment of over \$60 billion since June of 1950.

## Stocks Discounting Inflation

The stock market during this period followed pretty much the pattern of expanding business and the mounting inflationary trend, except in the years 1946 to 1949, which brought on a period of digestion and adjustment after the long rise from 1942. Lower commodity markets and some industry adjustments, together with a growing fear of a recession, had an important psychological effect during this three-year period. This did much to keep the market in a narrow range. Since then the market has continued its upward course, marred only by the short emotional upset upon the outset of the Korean War.

Aiding and abetting this trend was the desire of investors for a larger income from their investments, which

was available in equities, and the desire to protect themselves against the rising tide of inflation. Investment trusts of the open-end type enjoyed a phenomenal growth; and they, together with the buying by trust companies, insurance companies, savings banks, and ever-mounting pension funds, shortened the supply of quality equities. From a lowly beginning at 92.92 on the Dow-Jones Industrial Averages in 1942 until its close at 291.90 on the last day of 1952, the market has done much to discount the inflation of the last eleven years.

A simple chart, using the gross national product (the value of all goods and services produced) as a measure of our economic expansion, the consumers' price index as a measure of our inflation, and the Dow-Jones Industrial index as a yardstick of stock prices, all adjusted to 1939, is presented as a visual reminder of the parallel in the trend of the stock market and the expanding and inflationary trend of our economy.

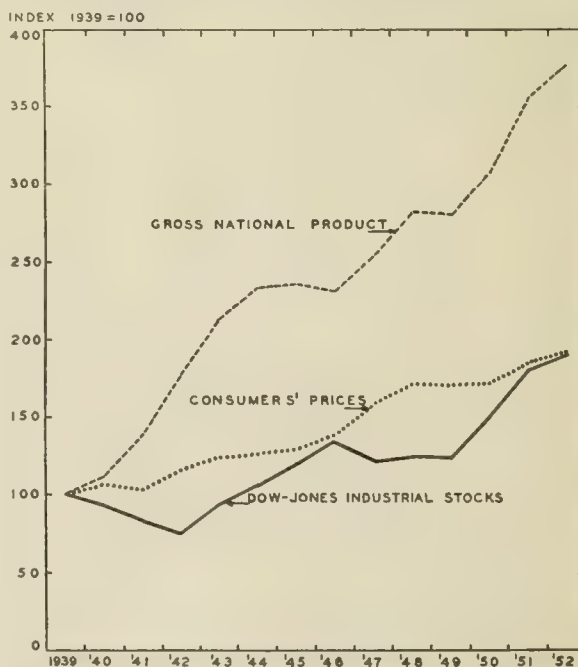
## The Outlook for Business

This brings us to the long look up the road. What does 1953 hold for the businessman and the investor?

As our Political Economy is spelled with a capital P these days, perhaps the greatest single factor of importance in judging the year ahead is the result of the recent election. What does it mean? Probably a desire for peace, real leadership, and a restoration of moral integrity in government. Our future, not just 1953, may well depend upon the men chosen to be our leaders and the policies they propose.

The men thus far chosen appear to be men of proven experience in their field, men of high moral standards. We have reason to expect of them sound judgment on the

GROSS NATIONAL PRODUCT, CONSUMERS' PRICES, AND STOCK PRICES



Sources: *Survey of Current Business*, 1951 Supplement, and recent issues.



many questions they will be called upon to face. If this should prove to be true, we will have to assign major importance to the confidence already manifest among businessmen and investors.

Some of the more tangible things evident today are that government expenditure for defense purposes will likely continue large through most of 1953. Employment should remain high, furnishing a high level of purchasing power. While family formation may not go forward at the same rate as recently experienced, we shall still feel the effects of a population growth of some 25 million since 1940 (which is equivalent to adding approximately twice the population of Canada in a twelve-year period). Outlays for public works, including schools, hospitals, water supply units, sewage plants, and roads, should rise as we attempt to catch up with this increased population trend. This will tend to offset private housing, which will likely decline.

According to a recent survey published by McGraw-Hill, capital formation—money spent on plant and equipment—is forecast at a continuing high level for the new year. One of the dark spots in the picture is the decline in the commodity futures indexes which forecast, among other things, a lower level of farm income.

Recently several prominent economists, whose opinions are widely read, have issued forecasts. Among them is Professor Slichter of Harvard, who recently forecast no slump in business activity in the second six months of 1953, the period most under question. The economist for the Prudential Insurance Company also predicts that the increased tempo of business will continue well into 1953. A recent publication by the staff of the Joint Committee on the Economic Report (U. S. Congress) is quite optimistic in its predictions for the years ahead.

These opinions are not by any means shared by all economists, as was brought out in a recent meeting in Chicago. The majority interviewed apparently held the opinion that the first half of 1953 would prove to be satisfactory for business, but few were willing to predict that the second half of 1953 would exceed the first half. As the current boom is receiving much of its impetus from our defense effort, much depends upon its continuance at current rates, as some segments of our economy, such as housing, plant expansion, and farm income, will likely tend lower sometime in 1953. Commodity markets, particularly the futures markets, are telling a story of mounting supply as they seek lower levels. Nevertheless current indications are that business should remain good through most of 1953 without the aid of additional inflationary pressures.

## Technical Considerations

Since October 22, 1952, the stock market has been engaged in a persistent, orderly climb with the daily volume pivoting around two million shares. To date, none of the excesses usually evidenced in a market top have appeared.

One yardstick used in measuring stock prices is their times earnings ratios. An interesting compilation presents the times earnings ratios of the Dow-Jones Industrial Averages evident at former market peaks, as compared with 1952's closing market.

Another measure of market peaks often used is the

	Market Peak	No. of Times Earnings
September 3, 1929.....	381.17	19.0
March 10, 1937.....	194.40	19.3
May 29, 1946.....	212.50	21.7
December 31, 1952.....	291.90	12.0

disparity existing between the yield on high-grade bonds and common stocks. Since high-grade bonds possess greater security, it is assumed that when the yield on equities approaches the return available on bonds, equities are then selling at too high a level commensurate with their inherent risks. Today the yield on high-grade bonds is 3.07 percent as opposed to a return of 5.43 percent on common stocks as measured by the Dow-Jones Industrial Averages—a disparity of 2.36 percent in favor of stocks. In 1937, a previous market top, this disparity was only one-half percent and in 1929 the differential was in favor of bonds by almost 3 percent.

## Conclusions

It is to be hoped that the confidence will not lead to excesses either in business or in the stock market, for the adjustment which follows is painful. There are means of curbing inflationary exuberance and the new administration is well aware of this. Control of the Federal budget is one tool, public debt management another, and yet another is the Federal Reserve's ability to curb credit expansion.

While the technical factors of the market appear favorable and business prospects satisfactory, a reversal of the market's trend is always a possibility. Emotions play an important part in the market, and opinions of sound values are subject to change in the light of changing domestic and world conditions.

For those whose chief interest is a long-term investment program, some comfort can be gained in an investment philosophy which envisages a balanced program—one which has as its heart a choice of the best companies in those industries which possess a strong growth trend. Such a program also calls for a protective position in equities of the defensive type and in an ample liquid reserve. The long-term growth position in such a program need not be disturbed by interim market fluctuations and the defensive equity position can also remain intact, because its selection was dictated by high regard for the safety of dividends. By reason of ample liquid reserve available, the investor operating under this balanced program can then exploit the possibilities of a higher market in which the liquid reserve can be increased if market risks appear disproportionate. If, on the other hand, a lower market should develop, or special situations warrant an investment accumulation, buying power can be utilized. Such a balanced program offers some relief from the anxiety and concern in guessing the near-term movements of the market.

## Business Briefs

(Continued from page 7)

\$2,100.) At the end of 1951, protection in the United States averaged \$5,500 per family.

Ownership of life insurance varied predominantly with income. More than 88 percent of families with incomes of \$4,000 or more owned insurance, whereas only 43 percent of those earning under \$1,000 held insurance. Community size also influenced ownership. Only 59 percent of persons living in the open country owned insurance as compared with 80 percent of the population in metropolitan areas. By age of family head, 84 percent ownership was indicated in the age bracket 25 to 44, the period of greatest family dependency.

# LOCAL ILLINOIS DEVELOPMENTS

Business activity in Illinois showed contrasting movements during November. Business loans recorded substantial gains over the preceding month and over November, 1951. Coal production, a little above October, was 21 percent below November of the previous year, whereas electric power production, down from October, was 13 percent above November, 1951. Indexes recording levels below both November, 1951, and October, 1952, included department store sales, bank debits, construction contracts awarded, petroleum production, and farm prices received.

## Cash Farm Income

Cash receipts from farm marketings in Illinois have fallen behind those of the nation as a whole. In October, the annual seasonal peak, farm income in Illinois was 52 percent above September, but it was 7 percent below October, 1951. For the nation, the corresponding decrease was less than 3 percent.

Lower prices for livestock and livestock products accounted for most of the decline in cash receipts during the year in Illinois. For the first ten months of 1952, farm income in the State was 1.4 percent below that for the same period in 1951, whereas in the nation cash receipts from marketings for the same ten months were 2.3 percent above the corresponding period in the previous year.

## New Illinois Power Plant

One of the nation's largest electric generating plants is scheduled to begin operations this month at Joppa, Illinois. Known as Electric Energy, Inc., the project was organized at the request of the Atomic Energy Commission. It will supply part of the electricity needed at the uranium refining plant in Paducah, Kentucky.

Electric Energy, Inc. is creating at least 1,500 permanent jobs and supplying new family income of about \$8,000,000 annually for the area. The \$100,000,000 enterprise will use approximately 2,500,000 tons of coal a year, and an estimated 55,000 freight cars will be needed to haul this coal to the plant, giving work to 500 railroad employees. Some 200 permanent employees will work in the plant itself. Nearly 3,000 persons were employed during the construction period.

Although five Midwestern utilities jointly own the enterprise, life insurance companies provided the major portion of the new plant's capital requirements.

## Employment Continues Upward

A 1952 high was established in October when nonfarm employment in Illinois totaled 3.4 million persons—slightly above September and 1.3 percent higher than October, 1951. Chiefly responsible for the state-wide increase were the durable goods industries, which registered an employment gain for the third successive month. Within this group, electrical machinery manufacturers reported the greatest increase, 4.3 percent more workers than in September. In the nonmanufacturing industries, a seasonal decline during October caused a slight reduction from September but the over-all figure exceeded October, 1951, by 33,200 persons.

Average hourly earnings of factory workers in Illinois reached \$1.78 in mid-October, a new high for the year; and average weekly hours worked increased to 41.9. This compares with the national average hourly earnings of \$1.71 per hour and a work week of 41.5 hours.

## Construction Contracts Down

The value of construction awards in Illinois during November—\$78.1 million—declined seasonally by 18 percent from October and 7 percent from November, 1951. Whereas residential contracts awarded were slightly higher than in the same month a year ago, nonresidential building as well as public works and utilities were off both from October, 1952, and from November, 1951.

The decline in construction awards between November, 1951, and November, 1952, was concentrated largely in the central and southern portions of the State. Awards in northern Illinois registered gains over the same month a year ago—by 91 percent in Lake County, 54 percent in Rock Island, and by 3 percent in Chicago.

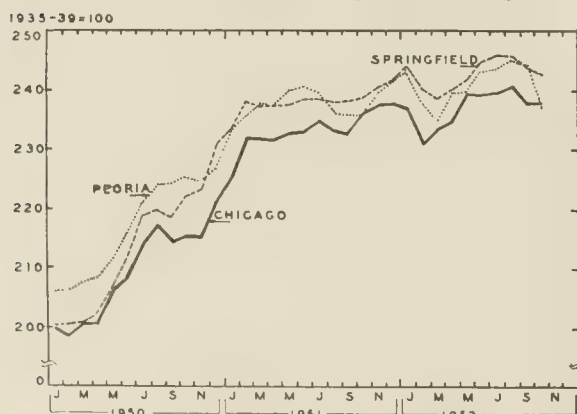
For the first eleven months of 1952, contract construction awards were 7.6 percent more than for the corresponding period in 1951. This was almost entirely the result of a 48 percent increase in awards granted for public works and utilities. Contracts issued in Chicago, Peoria, and Rock Island from January to November, 1952, were slightly less than for the same eleven months of the previous year, but substantial gains in DuPage and Lake counties contributed to the over-all increase recorded for the State.

## Retail Food Prices

Retail food prices in Springfield, Peoria, and Chicago declined during September and October from the all-time high reached in August, but were well above those of October, 1951, in all three Illinois cities (see chart). In Peoria, the food price index dropped substantially during October, whereas food prices in Springfield declined only slightly from the September level. Chicago's index was unchanged. The retail food price indexes in Springfield, Peoria, and Chicago were higher in October than the United States index of 232.4 percent (1935-39 = 100), indicating that food prices in these cities have risen more from the base period.

The Chicago consumer price index of all items increased for the first time in two months when it advanced 0.1 percent from mid-October to mid-November. This index for November—196.0 percent of the 1935-39 base—was 11.9 percent over the pre-Korea level (June, 1950) but only 0.9 percent above that of November, 1951.

RETAIL FOOD PRICE INDEXES



Source: Bureau of Labor Statistics.



# COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

November, 1952

	Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS...</b>	<b>\$25,544<sup>a</sup></b>	<b>915,231<sup>a</sup></b>	<b>\$553,116<sup>a</sup></b>		<b>\$10,304<sup>a</sup></b>	<b>\$13,263<sup>a</sup></b>
Percentage Change from...						
{Oct., 1952...	+5.8	+3.7	+7.1	-0.1	-18.8	-7.6
{Nov., 1951...	+49.3	+2.5	+5.6	-9.1	-6.7	-5.9
<b>NORTHERN ILLINOIS</b>						
<b>Chicago.....</b>	<b>\$19,764</b>	<b>718,665</b>	<b>\$404,836</b>		<b>\$9,306</b>	<b>\$11,782</b>
Percentage Change from...						
{Oct., 1952...	+10.7	+4.9	+6.0	+0.2	-19.0	-6.8
{Nov., 1951...	+51.3	+3.7	+5.2	-10.4	-7.2	-5.8
<b>Aurora.....</b>	<b>\$ 819</b>	n.a.	<b>\$ 7,578</b>		<b>\$ 45</b>	<b>\$ 92</b>
Percentage Change from...						
{Oct., 1952...	+13.0		+7.8	+1.3	-1.9	-10.0
{Nov., 1951...	+950.0		+4.6	-6.6	+2.3	-3.5
<b>Elgin.....</b>	<b>\$ 313</b>	n.a.	<b>\$ 5,648</b>		<b>\$ 28</b>	<b>\$ 105</b>
Percentage Change from...						
{Oct., 1952...	-1.3		+10.8	n.a.	-6.3	-3.6
{Nov., 1951...	-43.8		+7.4		-5.3	+7.5
<b>Joliet.....</b>	<b>\$ 665</b>	n.a.	<b>\$11,858</b>		<b>\$ 56</b>	<b>\$ 75</b>
Percentage Change from...						
{Oct., 1952...	+565.0		+18.0	+0.1	-10.0	-1.9
{Nov., 1951...	+320.9		+15.3	+6.6	+4.9	-9.6
<b>Kankakee.....</b>	<b>\$ 121</b>	n.a.	<b>\$ 5,500</b>		n.a.	<b>\$ 34</b>
Percentage Change from...						
{Oct., 1952...	+210.3		+10.2	-4.3		-2.9
{Nov., 1951...	+42.4		+16.2	-0.2		-1.7
<b>Rock Island-Moline.....</b>	<b>\$ 494</b>	<b>17,102</b>	<b>\$10,541</b>		<b>\$ 36<sup>b</sup></b>	<b>\$ 128</b>
Percentage Change from...						
{Oct., 1952...	-39.5	+1.3	+16.9	n.a.	-6.1	-19.4
{Nov., 1951...	-35.3	-5.2	+3.4		-6.1	-18.7
<b>Rockford.....</b>	<b>\$ 880</b>	<b>28,965</b>	<b>\$16,244</b>		<b>\$ 136</b>	<b>\$ 151</b>
Percentage Change from...						
{Oct., 1952...	-19.0	+1.6	+7.8	+3.6	-1.2	-12.7
{Nov., 1951...	+84.5	+10.6	+4.1	+0.7	+7.2	-11.4
<b>CENTRAL ILLINOIS</b>						
<b>Bloomington.....</b>	<b>\$ 66</b>	<b>6,333</b>	<b>\$ 5,580</b>		<b>\$ 50</b>	<b>\$ 97</b>
Percentage Change from...						
{Oct., 1952...	-79.7	+0.2	+6.9	n.a.	-14.2	-1.5
{Nov., 1951...	+200.0	+13.8	+3.3		+4.4	-2.9
<b>Champaign-Urbana.....</b>	<b>\$ 52</b>	<b>7,893</b>	<b>\$ 7,772</b>		<b>\$ 48</b>	<b>\$ 89</b>
Percentage Change from...						
{Oct., 1952...	-81.2	+4.7	+5.6	n.a.	-29.0	-9.6
{Nov., 1951...	-73.1	-3.2	+5.2		-8.1	+9.8
<b>Danville.....</b>	<b>\$ 359</b>	<b>8,156</b>	<b>\$ 6,452</b>		<b>\$ 41</b>	<b>\$ 47</b>
Percentage Change from...						
{Oct., 1952...	+223.4	+6.3	+12.8	-0.4	-9.4	-18.8
{Nov., 1951...	+53.4	+0.6	+6.1	+4.2	-7.5	-10.9
<b>Decatur.....</b>	<b>\$ 475</b>	<b>19,911</b>	<b>\$10,016</b>		<b>\$ 85</b>	<b>\$ 85</b>
Percentage Change from...						
{Oct., 1952...	+58.3	-5.7	+8.7	-10.5	-43.3	-17.0
{Nov., 1951...	+204.5	-13.2	+7.0	-5.4	-4.5	-8.0
<b>Galesburg.....</b>	<b>\$ 40</b>	<b>5,684</b>	<b>\$ 4,322</b>		n.a.	<b>\$ 30</b>
Percentage Change from...						
{Oct., 1952...	-81.3	-0.7	+11.5	n.a.		-13.2
{Nov., 1951...	-91.3	-2.7	+5.5			-5.7
<b>Peoria.....</b>	<b>\$ 365</b>	<b>43,782<sup>c</sup></b>	<b>\$17,915</b>		<b>\$ 198</b>	<b>\$ 191</b>
Percentage Change from...						
{Oct., 1952...	-68.1	-2.3	+12.0	+1.2	-16.6	-11.4
{Nov., 1951...	+29.0	-5.5	+5.2	-4.9	-2.1	-8.1
<b>Quincy.....</b>	<b>\$ 208</b>	<b>7,080</b>	<b>\$ 4,971</b>		<b>\$ 35</b>	<b>\$ 70</b>
Percentage Change from...						
{Oct., 1952...	-38.6	+6.5	+6.2	1.0	-14.5	-12.7
{Nov., 1951...	+181.1	+3.8	+1.0	-7.0	-1.6	-6.4
<b>Springfield.....</b>	<b>\$ 763</b>	<b>24,706<sup>c</sup></b>	<b>\$14,256</b>		<b>\$ 86</b>	<b>\$ 169</b>
Percentage Change from...						
{Oct., 1952...	+154.3	-2.0	+9.1	n.a.	-14.5	-26.1
{Nov., 1951...	+125.7	-0.4	+7.4		+0.5	-8.1
<b>SOUTHERN ILLINOIS</b>						
<b>East St. Louis.....</b>	<b>\$ 68</b>	<b>11,996</b>	<b>\$ 9,680</b>		<b>\$ 122</b>	<b>\$ 56</b>
Percentage Change from...						
{Oct., 1952...	-42.9	+2.5	+8.0	n.a.	-18.1	-15.8
{Nov., 1951...	-50.4	+2.8	+5.6		-11.9	+3.1
<b>Alton.....</b>	n.a.	<b>10,468</b>	<b>\$ 5,388</b>		<b>\$ 31</b>	<b>\$ 26</b>
Percentage Change from...						
{Oct., 1952...		-6.3	+14.5	n.a.	-10.0	-21.3
{Nov., 1951...		+5.1	+12.9		+8.3	-6.4
<b>Belleville.....</b>	<b>\$ 92</b>	<b>4,490</b>	<b>\$ 4,560</b>		n.a.	<b>\$ 37</b>
Percentage Change from...						
{Oct., 1952...	+8.2	-1.4	+7.8	n.a.		-7.0
{Nov., 1951...	+228.6	6.6	+7.7			-2.9

Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for October, 1952, the most recent available. Comparisons relate to September, 1951. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. <sup>5</sup> Local post office reports.

<sup>a</sup> Total for cities listed.

<sup>b</sup> Moline only.

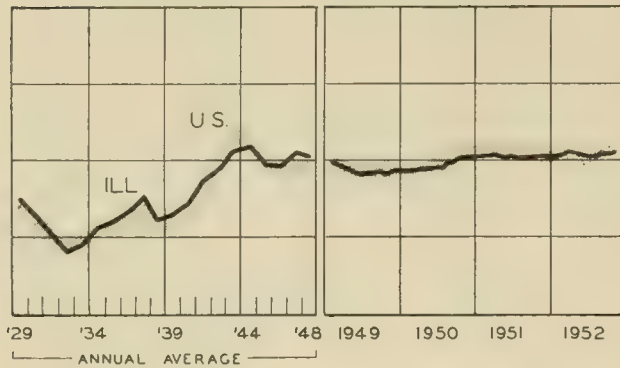
<sup>c</sup> Includes immediately surrounding territory.

n.a. Not available.

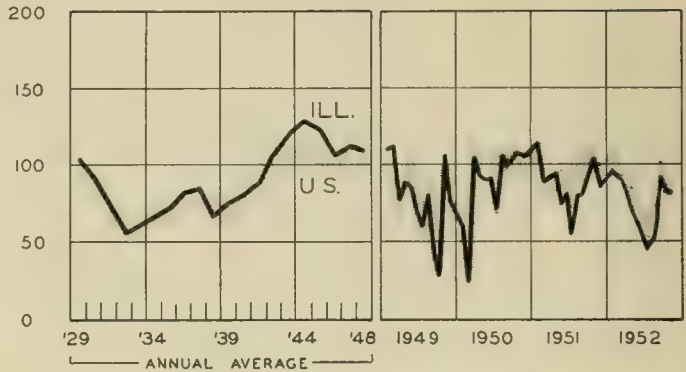
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

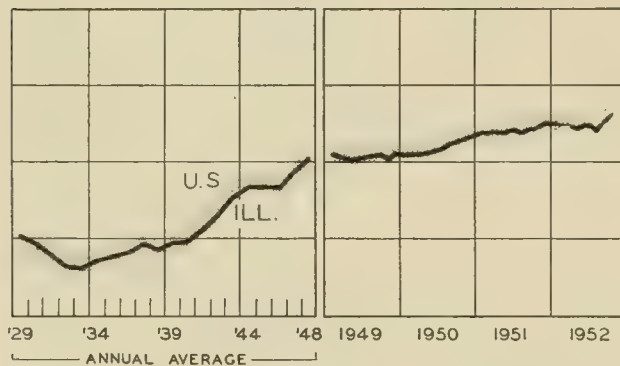
## EMPLOYMENT - MANUFACTURING



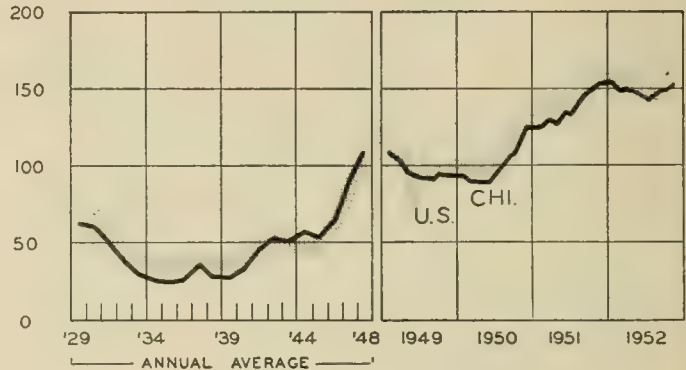
## COAL PRODUCTION



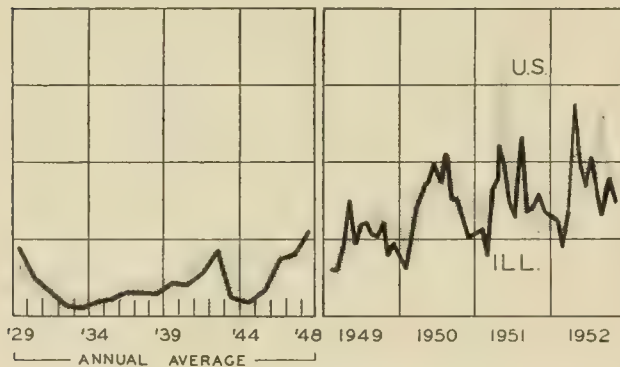
## AVG. WKLY. EARNINGS - MANUFACTURING



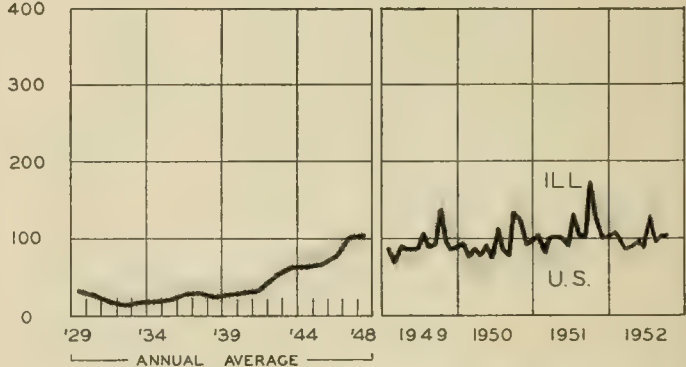
## BUSINESS LOANS



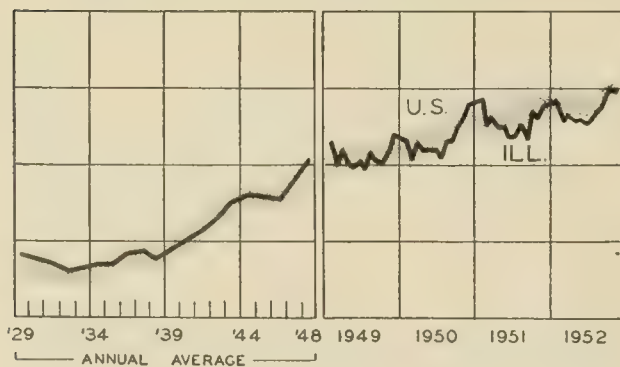
## CONSTRUCTION CONTRACTS AWARDED



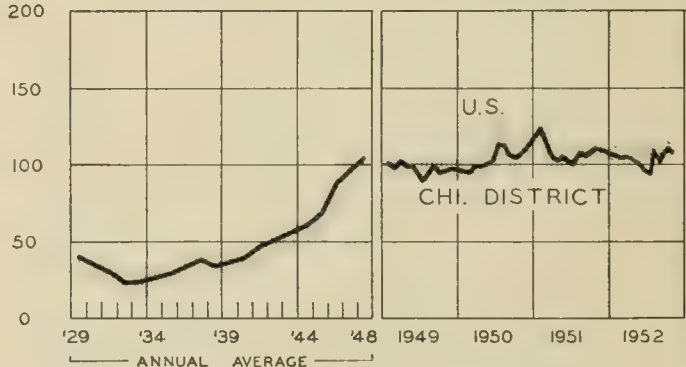
## CASH FARM INCOME



## ELECTRIC POWER PRODUCTION



## DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME X

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## HIGHLIGHTS OF BUSINESS IN JANUARY

The usual seasonal downturn in business activity was not so much in evidence this January. The Federal Reserve index of industrial production was estimated to have risen on a seasonally adjusted basis to 236 percent of the 1935-39 average in January; this was a new peacetime high, one point above the level attained in the preceding month, and an increase of nearly 7 percent over the index figure for January of last year. Automobile production was up sharply, as more than 465,000 passenger cars rolled off assembly lines during the month.

Retail sales continued brisk although there was a seasonal decline from December. The Federal Reserve index of weekly department store sales during January exceeded corresponding 1952 levels in all weeks but one.

### Employment at High for Month

Despite a seasonal rise in unemployment and a seasonal decline in the number at work, the employment situation continued favorable. Unemployment rose seasonally by half a million to 1.9 million, partly as a result of the winter postponement of construction operations.

The number of jobholders in January, though down 950,000 because of seasonal layoffs, exceeded 60.5 million — the highest figure ever recorded for the month. Non-farm employment, at 55.1 million, was above the January, 1952, level by 1.5 million, notwithstanding layoffs of temporary workers from holiday employment.

Perhaps the most significant change in the employment picture has been the steady decline in the number of farm workers. Farm employment in January declined by 200,000 to 5.4 million. This represents a decline of 800,000, nearly 16 percent, as compared with the number of farm workers last January, and it provides ample evidence of the attraction of higher-paid trade and industrial occupations to farm labor.

### Wage and Price Controls Relaxed

On February 6, a little over two years after they had been imposed, President Eisenhower abolished government controls on wages and on the prices of a wide range of consumer goods. Remaining controls on prices are scheduled to be eliminated not later than April 30.

With numerous items selling below ceiling levels, the Administration hopes that removals of controls this time will not have the same inflationary consequences as de-

control after World War II. At any rate, scant evidence of a tendency for prices to rise was apparent in the latter part of January, when the President's action was widely anticipated. Both of the Bureau of Labor Statistics' wholesale price indexes — the comprehensive index and the daily spot price index — declined slightly.

Farm prices declined somewhat further in the month ended January 15, bringing the decline from a year earlier to 11 percent. The decline was due mostly to a 19 percent drop in prices received for meat animals, principally beef cattle, down 27 percent. The index of prices paid by farmers rose slightly, with the result that the parity ratio dropped one point to 95, down 10 points from January of last year.

### Construction Expenditures Remain High

If the experience of the first month of the year is any indication, construction outlays should be well maintained in 1953. Though down seasonally from December, the value of new construction put in place in January aggregated \$2.3 billion, a gain of 6 percent over construction expenditures last January. This marked the fourteenth consecutive month that construction outlays exceeded those in the corresponding month of the preceding year.

Private construction expenditures showed the greatest strength in January, rising 7 percent above the level of a year ago whereas public expenditures were up only 4 percent. Increased activity in private homebuilding, in private commercial building, and in defense-connected public construction were mainly responsible for the rise.

### Business Inventories Rise

The total value of goods on the shelves of manufacturers, wholesalers, and retailers amounted to \$73.5 billion at the end of 1952, about \$700 million above the value a year earlier. Physical volume increased even more since inventory valuation prices declined about 1 percent.

On a seasonally adjusted basis, the book value of business inventories at the end of December was only slightly higher than in November, the increase being accounted for by higher retailers' stocks. Nevertheless, at \$19.8 billion, seasonally adjusted retail holdings at the end of December were nearly 5 percent below the year-end 1951 level, although retail sales had risen more than 10 percent during the same period.

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## Foreign Trade, Plus Aid

A growing view, both here and abroad, is that our foreign aid program should be brought to an end. In this country, many are inclined to feel that other countries have been getting a free ride long enough, and that living at our expense only makes them indolent. In Europe, many react strongly against their seeming dependency, and to the extent that we stipulate conditions on which the aid may be obtained, such reactions are likely to take the form of resentment against our "interference" in their affairs. Such sentiments are given terse expression in the slogan, "Trade, Not Aid!"

The alternative implicit in the slogan is a world in which trade and capital flows will be free enough to enable each nation to realize its full capabilities. But can such conditions be created as a substitute for the foreign aid program?

### Just a Slogan

In some respects, we may well claim to be world leaders in urging the adoption of policies designed to bring about this kind of world economic system. We have reduced our tariffs considerably and sponsored the General Agreement on Tariffs and Trade with a view to reducing trade barriers still further. We undertook the Marshall Plan in a real effort to provide assistance, despite any elements of self-interest it may contain. The Point IV program is at least a beginning in helping the underdeveloped countries. All these are consistent with the traditional goals of *laissez-faire* economics — unrestricted multilateral trade, convertibility of currencies without discrimination, and rising standards of living based on increasing productivity.

As a strategic, long-run position, there is no better. But the more admirable our goals, the harder it is to live up to them when faced with unforeseen difficulties and conflicting pressures.

Overshadowing all economic policies are the moves and countermoves of the cold war. We began to apply measures of economic warfare against the Iron Curtain countries early in the postwar period, and at least partial cooperation in such measures has been made a condition for receiving aid. As security measures were tightened on either side, normal East-West trade was practically ruled out. For countries like Great Britain and Western Germany, the pinching off of trade with Eastern Europe and the Far East presented serious consequences. It

meant they had lost opportunities to sell their products; and when they looked for substitute markets in the West, buyers were not easy to find.

Developing new channels of international trade is never easy, and no market is more difficult to crack than ours. Building up a profitable volume of sales is an expensive and time-consuming process.

No country or group of producers can contemplate such an undertaking when it appears that the more successful they are, the more likely their efforts are to be put to nought by new barriers against their competition. That is precisely the effect of the "escape clause" and "peril point" provisions of our Reciprocal Trade Agreements legislation, which requires reimposition of tariffs whenever domestic production is "imperiled" by imports. How far we have departed in practice from our announced free trade policy is indicated by the fact that a group of countries, about whose restrictions we have been complaining, urged us at the Geneva Conference last fall to remove the amendment to the Defense Production Act under which cheese imports were restricted.

Whenever free trade hurts any group, it is subject to attack; and whenever a combination of "log rolling" special interests becomes powerful enough, protection triumphs. Memories of the depression also convey a warning, that if we are reluctant to accept imports in prosperity, we shall be doubly so after a decline. The "cheese amendment" is thus symbolic of a threat fully as destructive of attempts to enter our markets as high tariffs themselves. Under these circumstances "Trade, Not Aid!" remains just an empty slogan.

### Obstacles to Foreign Investment

Even if our imports should be increased as a result of reducing barriers, this is obviously a long-run objective. It would require two attendant policies: (1) a continuation of aid until imports do increase; and (2) a domestic policy to re-employ resources displaced from competing industries; otherwise, our income would be cut and imports would again fall back.

Any rise in imports as a result of lowering barriers would probably be limited. Many of our key imports are now unrestricted; and many other commodities could not be sold here in volume because domestic producers would continue to hold their markets at somewhat lower prices. If other countries should somehow succeed in sending us enough to enable them to maintain their purchases from us, their problem would hardly be solved. Immediately, this would mean only that they would have just that much less for meeting their own needs, and the inflationary pressures that now beset them would be intensified. The dollar gap exists, not because we keep our trade unbalanced, but because other countries need our exports and cannot pay for them in goods and services without aggravating existing shortages. They would face an intolerable decline in living standards, in productive investment, or in defense programs. We could gain nothing by permitting our friends to be thus weakened.

One outstanding fact of the world situation today is that this is the one country capable of producing a substantial surplus, the one potential source of capital needed so badly in other parts of the world. This fact has been the basis of many proposals for increasing the rate of foreign investment by our private citizens and business concerns. These proposals have failed because under present conditions of political instability, the risks of foreign investment are prohibitive. The danger of ex-

(Continued on page 6)



### WALLPAPER—AN ILLINOIS FIRST

The use of wallpaper began with the custom of the Chinese people of commemorating the death of relatives by putting up a strip of painted paper after each death. Early explorers brought back to Europe the scenic papers which were similar in design to those made in China today.

Wallpaper was first adopted in the West as an inexpensive substitute for tapestries. The early European wallpapers were made in the fashion of tapestries and were used as movable hangings. Gradually, the idea of printing the colors rather than painting them in by hand was developed and became the accepted technique. It was not until 1730, however, that wallpaper was first offered in rolls.

Wallpapers were imported from France and England to America and were a general article of merchandise in the early eighteenth century. In the late 1840's the production of machine- or cylinder-printed wallpaper was undertaken in this country. Until the turn of the century, the industry was concentrated along the eastern seaboard, but about fifty years ago the industry began to develop in Chicago and then in Joliet, and later it spread to several other points in Illinois.

#### The Industry in Illinois

Today, Joliet is recognized as the center of the wallpaper industry in the United States. Six large mills in Joliet turn out one-third of the nation's wallpaper. These mills—Star-Peerless, Mid-West, Lennon, Morgan, Superior, and Joliet Wall Paper—turn out enough wallpaper daily to reach to New York and back again.

The United Wallpaper plant at Montgomery is held to be the largest and most modern wallpaper factory in the world.

Other wallpaper mills are located in Chicago, Coal City, Crystal Lake, Mokena, Woodstock, and Decatur. It is estimated that about 40 percent of the nation's wallpaper is produced in this State. In 1947, over \$16.5 million worth of wallpaper was shipped by Illinois mills as compared with about \$9.2 million in 1939, an 80 percent increase. In spite of the increase in employment and production, Illinois manufacturers did lose some ground in the industry during this period, as shipments for the industry as a whole increased by 135 percent.

#### Modern Techniques

In the 1790's a wallpaper maker could turn out 40 rolls a day. Background color was applied by brush, and the design was printed by wooden blocks.

Modern machinery is capable of turning out wallpaper at a rate of 10,000 rolls a day. The machines are block-long giants through which paper is continuously fed and printed in rapid succession from small cylinders. A separate cylinder or roller is used for each color in the pattern. For the more intricate patterns, as many as twelve rollers may be needed for a single design. After the paper shoots through the rollers and receives the imprint, it passes before a hot-air blower and is quickly dried, then automatically cut and wound into rolls.

In order to keep abreast of consumer demand in a highly competitive and style-conscious industry, frequent changes in design have to be made and three months or more are required to build the rollers after the designers have completed the new pattern. The manufacturers of wallpaper employ not only styling experts, but even highly trained chemists and research engineers in order to turn out a better product. An excellent example of the results of this policy is the color control system recently adopted by United Wallpaper. Using 13 basic colors, as many as 1,500 standard shades may be mixed according to scientific formulas. Any one of these shades may be reproduced at any time and will match perfectly. By eliminating all but a minimum of experimental runs on the printing machines, the color control system has resulted in considerable savings in time, effort, and money.

#### New Products

Nine-tenths of the wallpaper used today is light-fast and washable. In addition to these basic improvements, research has led to the development of four new types of wallpaper.

Ready pasted wallpaper, developed to fulfill the demands of the "do it yourself" consumer market, has grown steadily in popularity since its first introduction in 1943. This paper is treated with a patented adhesive backing which eliminates the necessity of applying wallpaper pastes. The paper is simply cut, dipped in water, and applied to the wall.

Cedar-closet wallpaper, featuring a cedarwood design, is made from actual cedar pulp and carries an effective natural cedar odor, making it suitable for closets, clothes chests, bureau drawers, and recreation rooms.

Another wallpaper, developed in 1947, is stainproof, mildew-proof, greaseproof, fire resistant, and fade-proof. It has many uses both in commercial establishments and in private homes.

The most recent development in wallpaper is a line of plastic wallpapers which are guaranteed to withstand at least 100 washings. Although this paper is not stainproof, it offers a smartly styled, highly durable wall covering at low cost.

Other research is providing increased opportunities for the hundreds of highly skilled workers employed in the wallpaper industry, which has shown above average stability through past economic cycles. This stability has been due to the ability of the wallpaper firms to diversify their products as well as to find new uses for paper. Most firms keep idle presses busy by doing commercial printing for other industries. One firm has recently developed and gone into production on a new type of plastic milk carton which is especially suited for use by small dairies.

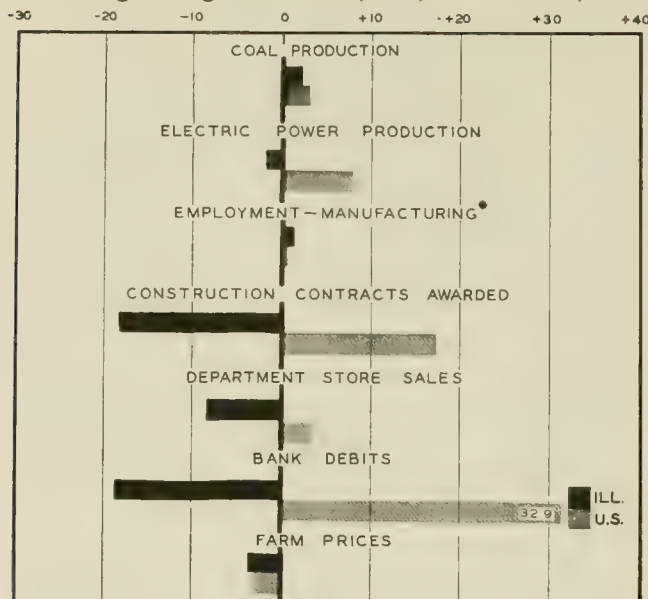
These developments indicate how the industry has managed to progress despite the competition of greatly improved paints for wall finishing. Alert management and diligent research will keep the wallpaper industry a distinct asset to Illinois.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes November, 1952, to December, 1952



\* October, 1952, to November, 1952.

## ILLINOIS BUSINESS INDEXES

Item	December 1952 (1947-49 = 100)	Percentage Change from	
		Nov. 1952	Dec. 1951
Electric power <sup>1</sup> .....	162.3	+ 9.6	+15.8
Coal production <sup>2</sup> .....	94.9	+17.1	+12.3
Employment-manufacturing <sup>3</sup> .....	107.4	+ 1.8 <sup>a</sup>	+ 2.7 <sup>b</sup>
Payrolls-manufacturing.....	n.a.		
Dept. store sales in Chicago <sup>4</sup> .....	106.5 <sup>c</sup>	+ 8.3	+ 3.6
Consumer prices in Chicago <sup>5</sup> .....	114.7 <sup>d</sup>	- 0.5	+ 0.5
Construction contracts awarded <sup>6</sup> .....	124.8	-15.2	- 8.4
Bank debits <sup>7</sup> .....	155.7	+32.1	+18.8
Farm prices <sup>8</sup> .....	104.0	- 3.6	-11.9
Life insurance sales (ordinary) <sup>9</sup> .....	152.7	+20.0	+23.4
Petroleum production <sup>10</sup> .....	96.3	+ 5.9	+ 6.5

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.  
<sup>a</sup> October, 1952, to November, 1952. <sup>b</sup> November, 1951, to November, 1952. <sup>c</sup> Seasonally adjusted. <sup>d</sup> On 1935-39 base, the index was 195.1. n.a. Not available.

## UNITED STATES MONTHLY INDEXES

Item	December 1952	Percentage Change from	
		Nov. 1952	Dec. 1951
Personal income <sup>1</sup> .....	Annual rate in billion \$ 279.2 <sup>a</sup>	+1.2	+6.0
Manufacturing <sup>1</sup> .....			
Sales.....	290.4 <sup>a</sup>	+3.0	+15.2
Inventories.....	43.6 <sup>a b</sup>	0.0	+1.4
New construction activity <sup>1</sup> .....			
Private residential.....	11.4	-7.7	+13.5
Private nonresidential.....	10.0	-6.2	+0.2
Total public.....	8.7	-16.1	+ 4.6
Foreign trade <sup>1</sup> .....			
Merchandise exports.....	16.4	+16.1	-4.9
Merchandise imports.....	n.a.		
Excess of exports.....	n.a.		
Consumer credit outstanding <sup>2</sup> .....			
Total credit.....	24.0 <sup>b</sup>	+ 5.1	+16.1
Installment credit.....	16.5 <sup>b</sup>	+ 3.9	+22.2
Business loans <sup>2</sup> .....	23.3 <sup>b</sup>	+ 1.9	+ 7.9
Cash farm income <sup>3</sup> .....	36.7	-13.4	+ 2.1
Indexes (1947-49 = 100)			
Industrial production <sup>2</sup> .....			
Combined index.....	127 <sup>a</sup>	+ 0.4	+ 7.8
Durable manufactures.....	145 <sup>a</sup>	+ 3.0	+11.0
Nondurable manufactures.....	113 <sup>a</sup>	- 1.5	+ 4.9
Minerals.....	112 <sup>a</sup>	- 4.1	+ 0.6
Manufacturing employment <sup>4</sup> .....			
Production workers.....	108 <sup>a</sup>	+ 0.5	+ 4.4
Factory worker earnings <sup>4</sup> .....			
Average hours worked.....	105	+ 1.5	+ 1.5
Average hourly earnings.....	130	+ 0.8	+ 5.8
Average weekly earnings.....	137	+ 2.2	+ 7.4
Construction contracts awarded <sup>5</sup> .....	192	+17.5	+18.9
Department store sales <sup>2</sup> .....	116 <sup>a</sup>	+ 3.6	+ 6.4
Consumers' price index <sup>4</sup> .....	114 <sup>c</sup>	- 0.2	+ 0.8
Wholesale prices <sup>4</sup> .....			
All commodities.....	110	- 1.0	- 3.4
Farm products.....	100	- 3.9	-10.5
Foods.....	104	- 3.2	- 5.8
Other.....	113	+ 0.1	- 1.5
Farm prices <sup>3</sup> .....			
Received by farmers.....	100	- 2.9	-11.8
Paid by farmers.....	113	0.0	- 1.1
Parity ratio.....	96 <sup>d</sup>	- 3.0	-10.3

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> On 1935-39 base, 190.7. <sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1953				1952	
	Jan. 24	Jan. 17	Jan. 10	Jan. 3	Dec. 27	Jan. 26
Production:						
Bituminous coal (daily avg.).....	1,530	1,593	1,600	1,539	1,304	1,870
Electric power by utilities.....	8,144	8,121	8,210	7,713	7,550	7,616
Motor vehicles (Wards).....	140.6	138.8	131.0	100.7	98.3	88.5
Petroleum (daily avg.).....	6,400	6,434	6,380	6,428	6,507	6,099
Steel.....	251.8	250.8	248.0	245.7	238.9	231.3
Freight carloadings.....	698	705	688	563	521	728
Department store sales.....	86	92	89	81	146	83
Commodity prices, wholesale:						
All commodities.....	109.6	109.8	109.8	109.6	109.5	113.0
Other than farm products and foods.....	112.8	112.8	112.9	112.8	112.7	114.3
22 commodities.....	89.2	89.8	91.1	90.5	90.2	107.6
Finance:						
Business loans.....	22,908	23,007	22,980	23,206	23,308	21,286
Failures, industrial and commercial.....	173	158	163	89	95	142

Source: Survey of Current Business, Weekly Supplements.



# RECENT ECONOMIC CHANGES

## Sales Advance in December

On the strength of heavy Christmas buying, seasonally adjusted department store sales advanced in December to 116 percent of the 1947-49 average. This was 4 points higher than in November and about 6 points above December of 1951 and 1950. For the year as a whole, the dollar volume of department store sales last year just about equaled record-breaking 1951, though sales were well ahead of 1951 at the year's end, as is shown in the accompanying chart.

The estimated ratio of inventories to sales declined sharply, as is usual for December, and with the higher level of sales, was slightly below its December level of the two previous years.

Total retail sales, which have been on the upswing since midsummer, reached a record \$14.4 billion (seasonally adjusted) in December. This was about 10 percent above December a year ago and 3 percent above the previous month. The main advances from the November level were chalked up by general merchandise and apparel store groups, up 7 and 9 percent, respectively.

For the year as a whole, retail sales amounted to \$164 billion, up 4 percent from 1951. This gain represents, in part, a greater physical volume of retail trade in 1952,

since the prices of goods sold at retail advanced only about 2 percent during the year.

## Employment Declines Seasonally

The number of employed persons in January totaled 60.5 million, about 1 million below employment in December, but higher than in any other January on record. Nonfarm employment declined seasonally to 55.1 million in January from 55.8 million in the previous month. Much of the decrease took place in trade, as a large number of workers left temporary holiday jobs. With farm operations largely restricted to routine chores and maintenance work, nonagricultural employment continued to move downward, falling to 5.5 million in January.

Unemployment during the month rose by half a million to 1.9 million, or 3 percent of the total labor force. Census data in thousands of workers are as follows:

	January 1953	December 1952	January 1952
Civilian labor force.....	62,416	62,878	61,780
Employment.....	60,524	61,480	59,726
Agricultural.....	5,452	5,696	6,186
Nonagricultural.....	55,072	55,784	53,540
Unemployment.....	1,892	1,398	2,054

For 1952 as a whole more people were gainfully employed than at any other time in the nation's history. Average monthly civilian employment for the year amounted to 61.3 million, or 97.3 percent of the total civilian labor force. This was not materially greater than in 1951 when 61.0 million were employed, but was about 1.3 million above 1950.

Unemployment last year declined to a postwar low, as an average of only 1.7 million, or 2.7 percent of the total labor force, were without jobs. This compares with unemployment of 3 percent of the labor force in 1951 and of 5 percent in 1950.

## Government Debt at Record High

On last June 30, the end of fiscal 1952, the combined debt of Federal, state, and local governments reached an all-time high of \$289 billion. This was equivalent to \$1,839 for every man, woman, and child in the nation. The Federal government's borrowings accounted for almost 90 percent of the total, or \$259 billion. State government units owed \$8 billion, and local governments were about \$23 billion in debt.

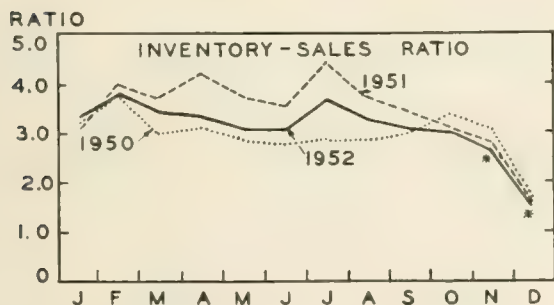
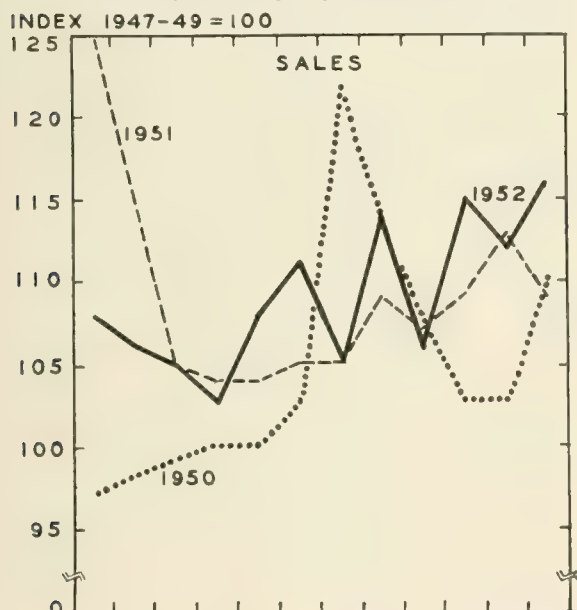
Increases in Federal, state, and local borrowings over the years have been greater than the increase in population and in the output of goods and services. Borrowings totaled 85 percent of gross national product in 1952 as compared with 67 percent twenty years earlier.

On the other hand, interest payments on governmental debt have not advanced as rapidly as the debt itself. In 1952 total interest payments amounted to over \$6 billion, 4½ times those in 1932, whereas the total public debt was almost 8 times its 1932 level. In recent months, however, governments have faced rising borrowing costs, owing in part to the decision in March, 1951, to withdraw Federal Reserve support of government bonds at "pegged" prices.

## Divergent Price Movements

Prices received by farmers continued to decline, falling almost 1 percent in the month ended January 15, 1953. This 2-point decline brought the index of prices received by farmers to 267 percent of the 1910-14 average. Lower prices for dairy products, cotton, truck crops,

DEPARTMENT STORE SALES  
(seasonally adjusted)



\* ESTIMATE

Source: Federal Reserve Board.

eggs, and grains were only partially offset by higher average prices for hogs, calves, sheep, lambs, potatoes, and some fruits. During the same period, the index of prices paid by farmers rose fractionally because of higher farm wage rates, interest, and taxes. As a result the parity ratio declined for the fifth successive month, to 95, one point below December.

The consumers' price index declined 0.2 percent to 190.7 (1935-39 = 100) in the month ended December 15. The decline resulted from slightly lower prices for foods, apparel, and housefurnishings which more than offset small advances in rent, fuel, and the miscellaneous group.

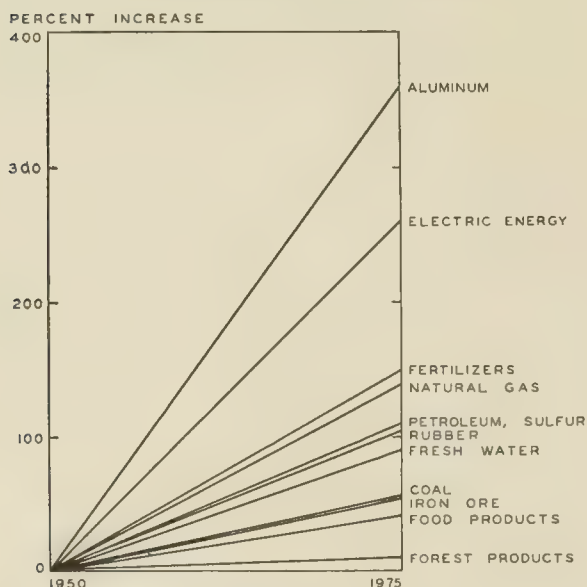
## Resource and Material Demand in 1975

The demand for many natural resources and raw materials in 1975 is expected to exceed greatly the level of use in 1950, according to reports by two recent Presidential commissions. Although the projections on the accompanying chart of the demand for selected materials are only rough estimates of future trends, they stress the need for sound technological and economic planning for the future.

Considerable potentials still exist in this country and in other countries of the free world for increasing supplies of various resources and raw materials. For example, the United States has huge resources of coal and about 80 million kilowatts of undeveloped hydroelectric power compared with present capacity of approximately 20 million kilowatts. Also undeveloped are large resources of taconite, which, with sufficient capital investment, can be made to supplement diminishing supplies of high-grade iron ore for use in blast furnaces.

The problem of meeting heavier future demands, therefore, is not expected to be one of running out of supplies altogether. Rather, it will be one of circumventing increases in the costs of development and production through such measures as new discoveries, cost-reducing techniques of mining and production, substitution of cheaper and more plentiful substitute materials, and strong conservation programs.

POTENTIAL DEMAND FOR SELECTED RESOURCES, 1950 TO 1975



Source: President's Materials Policy Commission.

## Foreign Trade, Plus Aid

(Continued from page 2)

propriation is serious, as indicated by Iranian oil. Even barring outright expropriation, taxes may be made confiscatory, or conditions of operation impossibly onerous. Or, it may merely be made impossible to realize on the investment, as neither the original capital nor the earnings on that capital may be convertible into dollars.

To reduce these risks, proposals have been made for government guarantees against both expropriation and nonconvertibility. Such guarantees cannot succeed without foreign cooperation, and ways around the obstacles to joint action have yet to be discovered. Even if certain governments are friendly, we have no assurance that they will continue in power long enough to justify long-term investments. The threat of world conflict itself bars any such assurance. It is unlikely that any sound basis for confidence in foreign investment can be developed while the cold war continues.

## Aid as Foreign Policy

Other solutions failing, we may well be forced to conclude that foreign aid remains a necessity. Torn as they are by conflicts and contradictions, foreign countries are bound to look for assistance where it can be found. In the past we have responded with programs as generous as our own internal conflicts have permitted. With the passage of time, the objectives of these programs have shifted. More and more, they have become a means of preventing losses of reserves and the inflation brought on by rearmament, and thus in effect a part of the joint defense effort. That this is not generally recognized merely indicates that our foreign policy is made up of diverse elements which have never been reconciled.

All this heightens the sense of insecurity abroad. As viewed by foreign eyes, the cold war is no longer an ideological conflict. Rather, in increasing numbers, they view the scene as one in which two great power aggregates seek military and political advantages, each against the other, with such intensity that differences in the basic economic philosophies underlying their positions are rendered inconsequential in the power struggle.

In these circumstances, whenever our actions depart from what we idealistically state to be our position, suspicion is aroused, and even the wholly valid elements in our foreign policy are discounted. Thus, the cutback in the foreign aid program last spring stands with the cheese amendment and with discriminatory immigration laws to illustrate how short-sighted political pressures can produce actions running counter to our broad international interests. Nor can it be doubted that the new Administration and the new Congress will be torn by the same struggle.

Today, reports from Washington observers indicate that the foreign aid program proposed for fiscal 1954 may be cut sharply. Its proponents will, of course, again point out its value as a means of bolstering our foreign policy. But in a real sense it is more than just a side issue. Since it is the cold war that makes any alternative solution impractical, the program is in the fullest sense a part of our foreign policy itself. It can be abandoned only as we abandon that policy or permit it to be undermined by the reactions that cutting off our aid would produce.

Perhaps President Eisenhower will be able to find a way around the difficulty. If so, the hard facts of the situation suggest that it will not be the course contemplated by the anti-aid slogan makers.

VLB



# BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

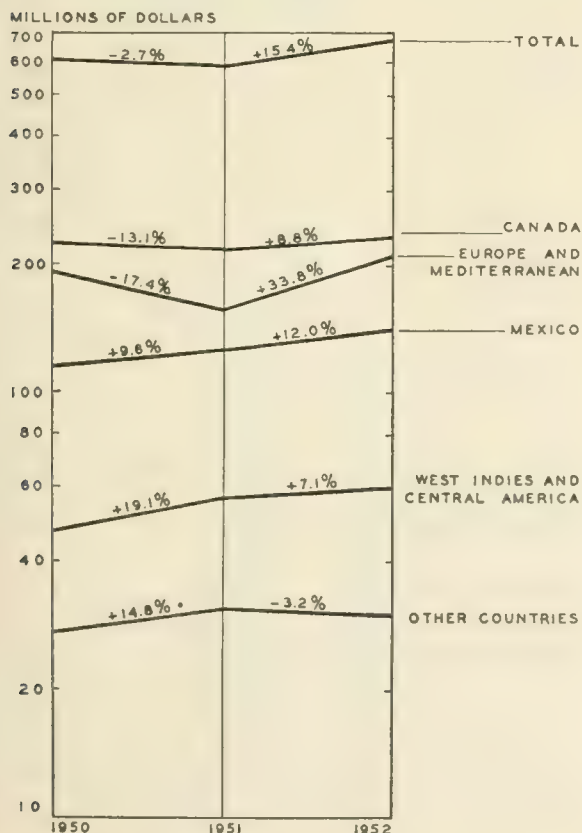
## American Foreign Travel

Americans spent over \$1 billion on foreign travel during 1952, according to preliminary estimates by the Department of Commerce. Most of this amount, over \$825 million, was spent in foreign countries. In addition, United States steamship companies and airlines collected \$170 million in fares, and payments to foreign carriers amounted to \$150 million.

The accompanying chart depicts differences in the amounts of money spent in foreign countries during the first nine months of 1950, 1951, and 1952. To accurately represent the percentage changes involved, dollar values are plotted on a logarithmic scale on which equal vertical distances represent equal ratios or proportions rather than equal amounts.

During the first nine months of 1952, the latest period for which detailed information is available, American expenditures in other countries totaled \$675 million, 15 percent more than for the corresponding months of 1951. Spending in the European and Mediterranean areas alone exceeded 1951 expenditures by almost 34 percent and 1950 expenditures (the Holy Year) by more than 10 percent. Responsible for most of this gain was an increased number of persons traveling to the area, largely because of reduced fares for transatlantic air service. American spending in Canada during January-September, 1952, reached a new high of \$235 million, and expenditures in Mexico, Central America, and the West Indies were greater than in either 1950 or 1951.

FOREIGN TRAVEL EXPENDITURES BY AREA  
January-September, 1950-52



Source: U. S. Department of Commerce.

## Successful Self-Service Stores

Three fundamentals of successful self-service operation are discussed by Harry E. Martin in the December, 1952, issue of *Chain Store Age*. Of primary importance is the price-marking of every article. Customers want to know the cost of merchandise; and cashiers, to be efficient, must be able to find the price on each item. Also, managers have better control of inventory if every article is marked. A second fundamental is to train cashiers not only in checking out, but also in making change, in sack-ing, and in the mechanical operation of the cash register. Thirdly, a successful self-service store must discourage pilferage. A number of helpful suggestions are offered, among which are gondola displays low enough to look over, an elevated department at one end of the store, and the use of mirrors.

## More Food Acreage

An increasing amount of the nation's cropland is being used for the production of food, according to the United States Department of Agriculture. During the last forty years, roughly 70 million acres have been converted from feed for horses and mules to food for human consumption, owing to the replacement of animal power by mechanical power. Although further declines in the number of horses and mules on farms can be expected, they will be neither as rapid nor as large. Thus additional increases in food production must come largely from greater per-acre yields, and from greater efficiency and increased livestock production rather than from conversion from other uses.

## Emergency Generator

An emergency electric generating plant, available in 5,000-watt and 10,000-watt models has been designed for use in suburban homes and farms that are completely dependent on electricity. Marketed by D. W. Onan and Sons, Inc., 3625 University, S. E., Minneapolis 14, Minnesota, the generator could also be used for construction work or for mobile radio and signaling operations. The compact units are gasoline-powered and air-cooled, being only about half the size and weighing several hundred pounds less than water-cooled models of similar wattage. Low initial cost per kilowatt of power and lower operating costs are cited by the manufacturers as major advantages. The smaller generator sells for \$895 and the 10,000-watt model for \$1,175.

## Plastic Furniture Finish

A thin plastic film on which rare wood grains, leathers, and marbles have been reproduced in natural color is being marketed by the Transvener Sales Company, 125 West Hubbard Street, Chicago, Illinois. Manufactured in a choice of finishes including 10 rare woods, cowhide, and two marble grains, the new product is designed for home craftsmen who want to enrich unpainted furniture and restore old pieces. The plastic film cover, called "Transvener," comes in sheets 32 by 48 inches in size. It is permanently applied with a solution that bonds it to the top finish and can be varnished or waxed when dry. "Transvener" can be applied over wood, glass, metal, plastic, plaster, or composition, according to company officials.

# THE FEDERAL BUDGET FOR FISCAL 1954

JOHN F. DUE, Professor of Economics

In those years in which the Federal administration changes—such as 1953—the budget for the first year of the new regime is prepared by the outgoing administration, and the budget message is presented by the retiring president. This is not, however, a serious handicap to the new administration. Not only can the President make recommendations different from those called for in the budget—as he is expected to do in the next several months—but the actual enactments are in the hands of the newly elected Congress.

In 1953, the actual measures enacted may not differ greatly from the January budget recommendations. Expenditure levels are dictated primarily by the scope of government activities. On most of the major functions, there is no fundamental difference between the policies of the new administration and the old, although there are of course differences in specific measures to be employed. Accordingly, the budget, as presented, offers a reasonably valid guide to expenditure and tax levels during the coming fiscal year.

## Expenditures Leveling Off

The trend of Federal budget expenditures in recent years is shown in Chart 1. On the whole the 1954 budget figures are close to the current estimates of expenditures during the present fiscal year. The total, \$78.6 billion, is \$4 billion greater than the present year figure; the increases are accounted for almost solely by higher military, foreign aid, and atomic energy spending.

Total recommended expenditures constitute about 26 percent of total national income, compared to 25 percent in the previous year and 18 percent in 1950. The figure is

only half the World War II high of 52 percent in 1945; it is double the 1939 figure of 13 percent.

Chart 2 emphasizes the tremendous importance of expenditures relating to past, present, and future national defense. Current expenditures on military services alone account for almost 60 percent of the budget total; if foreign aid and atomic energy research are added, the figure is 73 percent; if the veterans' program and interest on the Federal debt, which was largely incurred for war and defense purposes, are included, the figure is over 85 percent. The much publicized welfare activities account for only about 5 percent. Farm aid, together with the postal deficit, highway grants, rivers and harbors improvement, and other transportation and resources development items constitute another 7 percent. The general routine operations of government account for only 2 percent of the total; more than half of this amount goes for tax collection and Federal employee retirement system contributions.

## The Prospective Deficit

The revenue estimates are also presented in Chart 2. They are based upon existing tax legislation, taking into account the expiration during the year of tax increases made in the Revenue Act of 1951. The excess profits tax is due to expire June 30, 1953; the personal income tax increases lapse December 1, 1953; and the increases in the excise taxes and the corporation income tax on March 31, 1954. It is anticipated that further increases in national income will offset these rate reductions. The estimate of total receipts (\$68.7 billion) is the same as that of estimated receipts during the current fiscal year.

With expenditures estimated at \$78.6 billion and revenues at \$68.7 billion, the prospective deficit is \$9.9 billion. This compares with an estimated \$5.9 billion deficit in the current year.

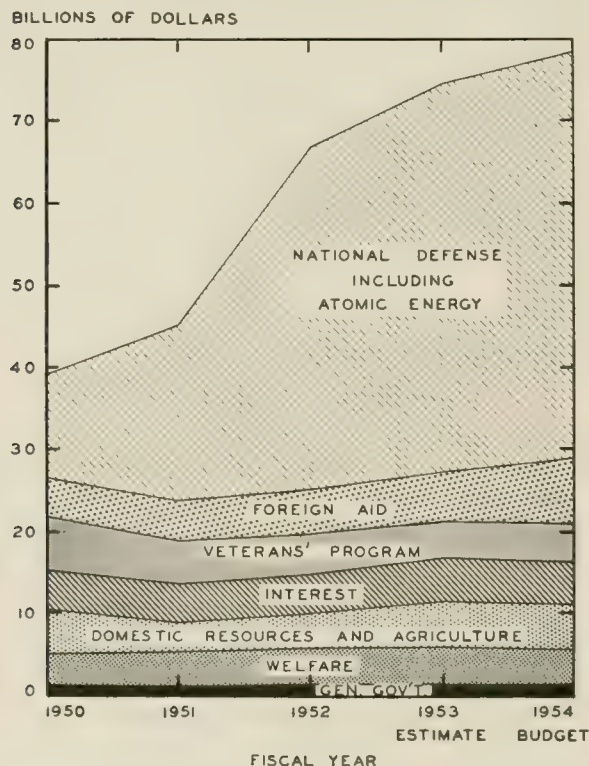
The anticipated cash deficit is \$6.6 billion, or more than \$3 billion less, because payments into social security and other trust funds substantially exceed payments out of these trust funds to the public. The cash deficit figure is more significant with respect to inflationary influences than the administrative budget figure.

Inevitably a deficit of this magnitude will have some continued inflationary influence on the economy, as well as producing further unwarranted increases in the national debt. Neither of the situations in which such a deficit would be economically justifiable exist at present. There is no indication of a severe downturn, in which the deficit, instead of furthering inflation, would operate to lessen the severity of the depression; and there is no evidence that high tax rates would produce greater inflationary effects (by increasing demands for wage increases and so forth) than those which would occur from a deficit.

## Policies in Regard to the Deficit

President Eisenhower in his State of the Union message on February 2 stated very emphatically that a balanced budget is essential and must be attained before any consideration is given to tax reductions. He indicated that careful review would be made of the budget to find ways of reducing expenditures. This point of view appears to be shared by other party leaders although a substantial element in Congress appears to regard tax reductions as more urgent than elimination of the deficit.

CHART 1. FEDERAL EXPENDITURES, 1950-54



Source: U. S. Bureau of the Budget.



There remains, however, the question of the means of accomplishing the balancing of the budget. It should be noted initially that during the past three years the actual deficits have in all cases been much less than those forecast in the budget. In fiscal 1951 the expected deficit was \$5.1 billion; actually a surplus of \$3.5 billion was attained, partly as a result of tax increases. In 1952 the anticipated deficit was \$16.5 billion and the actual deficit \$4.0 billion; in 1953 the budget figure was \$14.1 billion; the present estimate is \$5.9 billion. But these discrepancies were due to fortuitous circumstances which are not likely to be repeated. In part they were due to the failure of Congress to provide as large appropriations as requested. But mainly they arose from the lag in actual military spending behind the anticipated increases.

This year's budget contains relatively smaller increases in military expenditures. More significantly, orders placed in previous years are now being delivered in increasing quantities, and the lag is likely to lessen materially. Tax collections may of course prove somewhat larger than anticipated, as has often been the case. But on the whole it would appear that substantial positive action will be necessary this time to cut the deficit gap.

On the side of expenditure reduction, the chances of cutting several billions off the total does not appear bright, short of a reversal of general administration policies. The interest charge cannot be cut, and will rise if the interest rate level is allowed to increase. The veterans' program is not likely to be curtailed. The basic administration foreign policies preclude immediate reduction in over-all levels of military spending and probably in foreign aid, although there may be some inclination to reduce the latter if greater European unity is not forthcoming. Undoubtedly there are chances for economies in the armed forces which would allow us to do an equally good defense job at less cost, but these are very difficult to ferret out. Small savings will be realized by liquidation of the stabilization controls program.

So far as nondefense spending is concerned, it should be noted again that total expenditures for purposes not related to national defense, as outlined earlier, total only

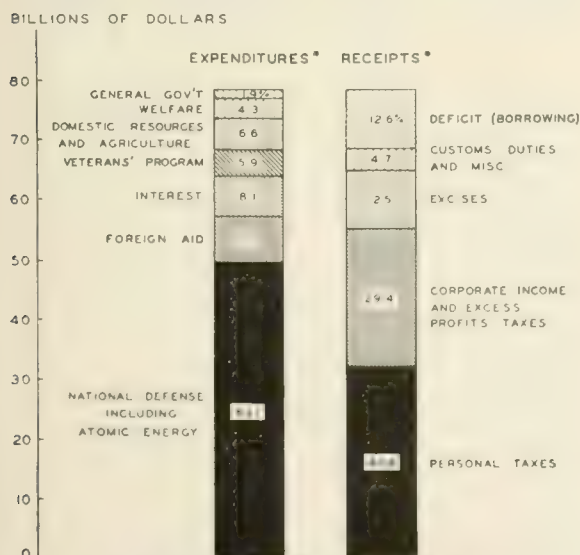
\$11 billion. Much of this goes for social security, farm aid, and other programs to which the new administration is committed. Some operating economies may be attained, of course, but these are not likely to produce any substantial saving. There are always avenues for reduction in the postal deficit, in rivers and harbors improvements, and in certain aspects of the farm program without serious loss to the economy, but there are strong political obstacles to their attainment.

On the whole, therefore, the chances of cutting \$10 billion, or even a major fraction of this sum, from the total appear slight. Large reductions could certainly be made, but only if the basic policies were altered. Otherwise, the only alternative to the deficit is an increase in taxes. But such a policy is so inconsistent with campaign promises that it can scarcely be advanced by the Administration, and would receive an extremely cool reception in a tax-reduction-minded Congress.

The very most that can be anticipated in respect to taxes is the extension of the tax increases made in 1951 which are scheduled to expire during the coming year. Such action would cut \$2 billion off the prospective deficit. The first of the taxes scheduled to expire is the extremely unpopular excess profits tax, which is subject to so much opposition that pressure to allow it to die will be very great. But if it is allowed to lapse, the pressure to allow the personal income tax increases to expire will mount; even now, strong elements in Congress would like to advance the expiration date to June 30. The Administration has probably stilled this drive, but whether it can hold Congress in line to prevent the scheduled expirations is doubtful.

Thus the new fiscal year is likely to produce a significant deficit. A balanced budget can result only if extremely fortuitous circumstances—which cannot be foreseen—produce unexpected increases in revenues or reductions in expenditures, or if administration policy is altered in one of the major spheres of expenditures. Whether the scheduled expirations of the 1951 tax increases will take place is difficult to forecast; in the interests of sound fiscal policy and the attainment of the stated goals of the Administration they should be postponed.

**CHART 2. PROPOSED BUDGET FOR 1954**



Source: U. S. Bureau of the Budget.

\* Figures in bars are percentages of total expenditures.

## The Long-Run Prospects

While the Administration has stressed the priority of budget balance over tax cuts, it is committed, both in campaign promises and post-election statements to eventual reductions in tax levels. But the obstacles to this program are in general the same as those which limit the possibility of balancing the 1954 budget by reducing expenditures. Over several years it may be possible to weed out significant inefficiencies and wastes and accomplish money-saving reorganizations both in civilian and in military establishments. But the dollar saving cannot, by the most optimistic estimates, exceed \$2 or \$3 billion. On the other hand, there will be strong pressures to increase various activities, such as social security.

The key to substantial reductions in total expenditures which would allow major tax cuts is military and foreign aid spending. The only real hope for reductions is through development of international policies which will lessen cold war tensions and allow us to bring down our level of military activity. Whether the Administration will be able to devise such policies cannot be predicted; there is feeling in some circles that the new policies thus far indicated may result in ultimate increases rather than in reductions in defense spending.

# LOCAL ILLINOIS DEVELOPMENTS

Illinois business was generally on the upgrade in December. Most indexes registered increases over November as well as over a year ago. Manufacturing employment and average weekly earnings have increased every month since August, both over the same month of the previous year and over the preceding month. Gains of at least 10 percent over both November this year and December, 1951, were made in the indexes for electric power production, bank debits, and coal production. Construction contracts awarded, farm prices received, and cash farm income declined seasonally.

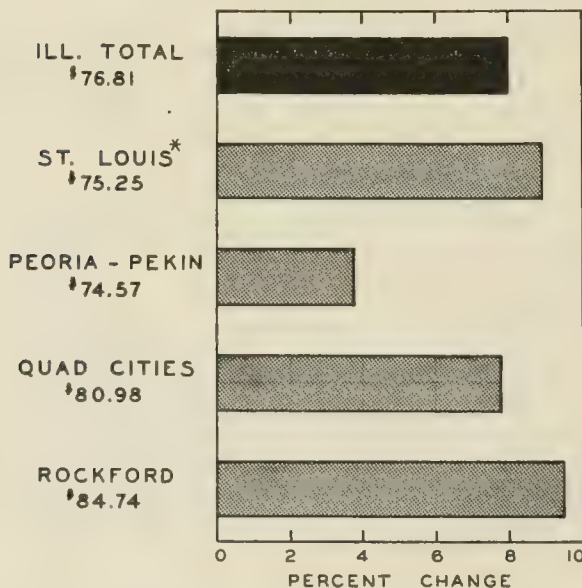
## Manufacturing Employment

Nonfarm employment in Illinois during December broke all previous records when it rose to 3.4 million workers, 2 percent above November. Gains in manufacturing industries alone more than compensated for the usual seasonal reductions in construction and other outdoor activities.

During the second half of 1952, average weekly earnings in Illinois manufacturing concerns jumped from \$71.09 to \$76.81, an increase of 8 percent. The increase in at least two areas—St. Louis and Rockford—was more than the state-wide figure, as is shown in the accompanying chart. Of the four areas shown, the Rockford area, which experienced the largest increase, also had the highest average weekly wage, \$84.74, in December. Much of the variation is due to differences in hours worked and related differences in overtime pay.

Average hourly earnings for the State increased from \$1.73 last June to \$1.82 in December. Among the areas for which data are available, earnings per hour in the St. Louis area increased most during the last half of 1952—nearly 6 percent—though hourly earnings were up 4.5 percent in both the Peoria-Pekin and Rockford areas. The average work week declined slightly in the Peoria-Pekin area (to 39.9 hours) and increased two hours (to 46.0 hours) in Rockford.

**WEEKLY EARNINGS IN MANUFACTURING\***  
June to December, 1952



Source: Illinois Department of Labor.

\* Figures also cover counties in which cities are located.

\* Illinois side. Includes Madison and St. Clair counties.

## Steel Production Up

Steel production during December in the Chicago District set a record of 2.1 million net tons. Operating at 111.5 percent of capacity, the mills produced 3 percent more than in November and 14 percent more than in December a year ago. Though Chicago's steel companies have been operating at over 100 percent of capacity since the end of the prolonged strike in the middle of 1952, total production for the year was 13 percent less than the 22.3 million net tons produced during 1951.

## 1952 Coal Production Down

Preliminary estimates indicate that coal production in Illinois during 1952 dropped to 43.3 million net tons, 13 percent lower than in 1951 and almost down to the 1949 level. Labor disputes from May through August were chiefly responsible for the slump. During December, mining increased 12 percent over the same month a year ago and 17 percent above November to 4.5 million net tons. Fulton, Franklin, and Christian counties mined more than 42 percent of the total.

## Farm Income

Cash receipts from farm marketings in Illinois during December totaled \$185.9 million, 2 percent less than in November but 22 percent more than in December, 1951. For the nation as a whole, cash farm income in December was 2 percent above December, 1951.

The index of prices received by Illinois farmers on December 15 stood at 266 percent of the 1910-14 base period, a decrease of nearly 4 percent from the previous month and 12 percent from a year earlier. Since prices paid by farmers throughout the United States were fractionally below November, the parity ratio in Illinois dropped to a 1952 low of 95.

## Construction Contracts Awarded

Whereas total construction in Illinois during December was off 8.4 percent from a year ago, the value of contracts awarded during the twelve months of 1952 increased 6.4 percent over 1951 to slightly over \$1 billion. However, many of the states surrounding Illinois, such as Iowa, Indiana, Michigan, and Minnesota, experienced declines from their 1951 construction levels.

Although industrial building in the Chicago industrial area during 1952 was less than that of either 1950 or 1951, reflecting a tapering off of the defense program from an exceptionally high rate of expansion, many firms nevertheless began building new plants during the year. Quam Nichols Company is constructing a factory and office building at 218-34 East Marquette Road. The structure will contain 60,000 square feet of space and will house the entire operations of the company, which manufactures radio and television components.

A new plant in LaGrange Park is under construction by the Berlyn Pierce Company, manufacturer of tire wrapping machinery. Encompassing approximately 12,000 square feet of floor area, the building will include office and warehouse space as well as manufacturing area.

Two Chicago firms are erecting new factories in Will County. Cardox Corporation is building a structure in Monee which will contain 10,000 square feet of floor area, and Charles G. Stevens Company is constructing a factory northwest of Joliet containing 12,000 square feet, in which it will carry on steel slitting operations.



# COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

December, 1952

	Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b> .....	\$10,279 <sup>a</sup>	966,093 <sup>a</sup>	\$538,026 <sup>a</sup>		\$13,607 <sup>a</sup>	\$17,721 <sup>a</sup>
Percentage Change from... {Nov., 1952.....	-60.0	+5.6	-2.7	+56.3	+32.1	+28.6
Percentage Change from... {Dec., 1951.....	-5.4	+7.3	+5.6	+7.1	+18.8	+12.9
<b>NORTHERN ILLINOIS</b>						
<b>Chicago</b> .....	\$7,864	755,560	\$392,484		\$12,487	\$15,148
Percentage Change from... {Nov., 1952.....	-60.2	+5.1	-3.1	+56.3	+34.2	+28.6
Percentage Change from... {Dec., 1951.....	-4.2	+7.6	+5.0	+6.8	+19.5	+13.2
<b>Aurora</b> .....	\$ 67	n.a.	\$ 7,634		\$ 49	\$ 127
Percentage Change from... {Nov., 1952.....	-91.8		+0.7	+46.8	+9.6	+38.4
Percentage Change from... {Dec., 1951.....	-66.8		+1.7	+6.4	+14.9	+2.7
<b>Elgin</b> .....	\$ 198	n.a.	\$ 5,626		\$ 31	\$ 139
Percentage Change from... {Nov., 1952.....	-36.7		-0.4	n.a.	+8.7	+33.1
Percentage Change from... {Dec., 1951.....	-18.2		+9.8		+7.0	+18.1
<b>Joliet</b> .....	\$ 445	n.a.	\$13,867		\$ 65	\$ 147
Percentage Change from... {Nov., 1952.....	-33.1		+16.9	+60.4	+17.5	+95.9
Percentage Change from... {Dec., 1951.....	+178.1		+42.3	+13.8	+25.0	+9.9
<b>Kankakee</b> .....	\$ 55	n.a.	\$ 5,596		n.a.	\$ 55
Percentage Change from... {Nov., 1952.....	-54.5		+1.7	+52.8		+61.9
Percentage Change from... {Dec., 1951.....	-42.7		+25.7	+7.4		+6.9
<b>Rock Island-Moline</b> .....	\$ 409	19,625	\$ 9,844		\$ 35 <sup>b</sup>	\$ 231
Percentage Change from... {Nov., 1952.....	-17.2	+14.8	-6.6	n.a.	-3.3	+80.7
Percentage Change from... {Dec., 1951.....	+48.2	+5.5	+1.5		+0.4	+7.0
<b>Rockford</b> .....	\$ 324	31,504	\$15,795		\$ 153	\$ 290
Percentage Change from... {Nov., 1952.....	-63.2	+8.8	-2.8	+60.8	+13.0	+92.1
Percentage Change from... {Dec., 1951.....	-35.2	+20.9	+0.9	+6.3	+15.6	+7.6
<b>CENTRAL ILLINOIS</b>						
<b>Bloomington</b> .....	\$ 46	6,499	\$ 5,235		\$ 54	\$ 119
Percentage Change from... {Nov., 1952.....	-30.3	+2.6	-6.2	n.a.	+7.7	+23.2
Percentage Change from... {Dec., 1951.....	+27.8	+13.9	+0.8		+12.1	-0.2
<b>Champaign-Urbana</b> .....	\$ 82	8,667	\$ 7,171		\$ 51	\$ 135
Percentage Change from... {Nov., 1952.....	+57.7	+9.8	-7.7	n.a.	+6.8	+51.8
Percentage Change from... {Dec., 1951.....	+18.8	+4.5	-0.0		+1.7	+5.0
<b>Danville</b> .....	\$ 121	8,433	\$ 6,132		\$ 43	\$ 94
Percentage Change from... {Nov., 1952.....	-66.3	+3.4	-5.0	+61.0	+3.6	+99.8
Percentage Change from... {Dec., 1951.....	+70.4	+8.1	+5.8	+11.7	+2.7	+10.9
<b>Decatur</b> .....	\$ 267	21,305	\$ 9,417		\$ 91	\$ 157
Percentage Change from... {Nov., 1952.....	-43.8	+7.0	-6.0	+53.0	+6.3	+84.6
Percentage Change from... {Dec., 1951.....	-49.5	+8.0	+1.9	+3.6	+7.0	+9.5
<b>Galesburg</b> .....	\$ 27	6,441	\$ 4,226		n.a.	\$ 57
Percentage Change from... {Nov., 1952.....	-32.5	+13.3	-2.2	n.a.		+90.3
Percentage Change from... {Dec., 1951.....	+22.7	+7.2	+8.9			+11.0
<b>Peoria</b> .....	\$ 130	45,345 <sup>c</sup>	\$17,745		\$ 224	\$ 374
Percentage Change from... {Nov., 1952.....	-64.4	+3.6	-0.9	+54.2	+12.8	+96.2
Percentage Change from... {Dec., 1951.....	-26.1	-1.2	+5.0	+9.9	+10.3	+24.4
<b>Quincy</b> .....	\$ 20	6,704	\$ 4,810		\$ 36	\$ 108
Percentage Change from... {Nov., 1952.....	-90.4	-5.3	-3.2	+59.0	+4.5	+55.0
Percentage Change from... {Dec., 1951.....	-75.6	-3.3	+2.5	+14.0	+7.8	+15.7
<b>Springfield</b> .....	\$ 80	26,565 <sup>c</sup>	\$13,792		\$ 99	\$ 302
Percentage Change from... {Nov., 1952.....	-89.5	+7.5	-3.3	n.a.	+15.0	+78.9
Percentage Change from... {Dec., 1951.....	-35.0	+4.4	+5.1		+7.1	+7.1
<b>SOUTHERN ILLINOIS</b>						
<b>East St. Louis</b> .....	\$ 34	12,739	\$ 9,257		\$ 151	\$ 106
Percentage Change from... {Nov., 1952.....	-50.0	+6.2	-4.4	n.a.	+24.2	+89.1
Percentage Change from... {Dec., 1951.....	0.0	+8.6	+5.2		+16.2	+13.2
<b>Alton</b> .....	\$ 73	11,280	\$ 5,076		\$ 36	\$ 57
Percentage Change from... {Nov., 1952.....	n.a.	+7.8	-5.8	n.a.	+16.6	+116.2
Percentage Change from... {Dec., 1951.....	+1,360.0	+9.0	+9.9		+13.6	+23.7
<b>Belleville</b> .....	\$ 36	5,424	\$ 4,318		n.a.	\$ 73
Percentage Change from... {Nov., 1952.....	-60.9	+20.8	-5.3	n.a.		+99.2
Percentage Change from... {Dec., 1951.....	+12.5	+0.2	+7.4			+20.0

Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for November, 1952, the most recent available. Comparisons relate to October, 1952. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. <sup>5</sup> Local post office reports.

<sup>a</sup> Total for cities listed.

<sup>b</sup> Moline only.

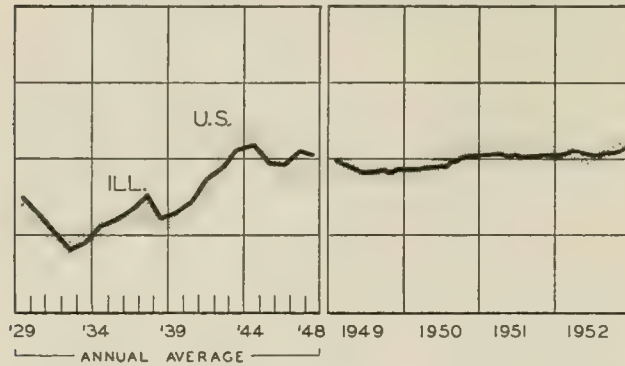
<sup>c</sup> Includes immediately surrounding territory.

n.a. Not available.

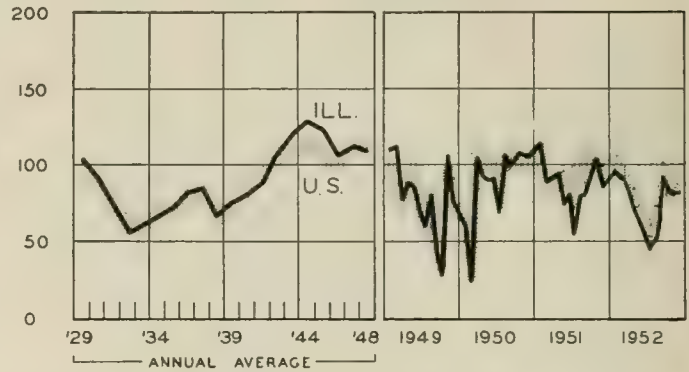
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

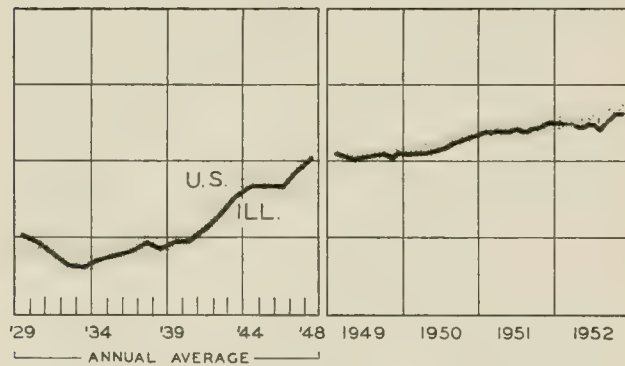
## EMPLOYMENT — MANUFACTURING



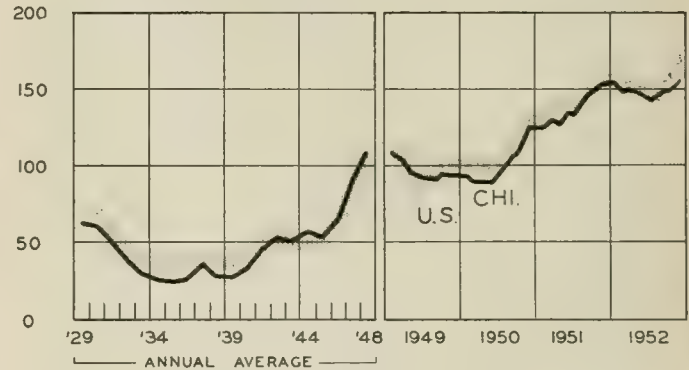
## COAL PRODUCTION



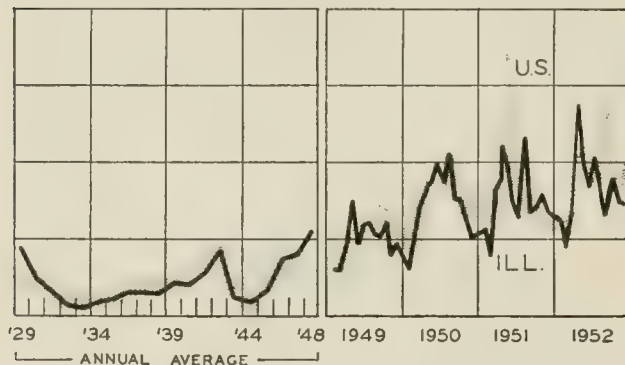
## AVG. WKLY. EARNINGS — MANUFACTURING



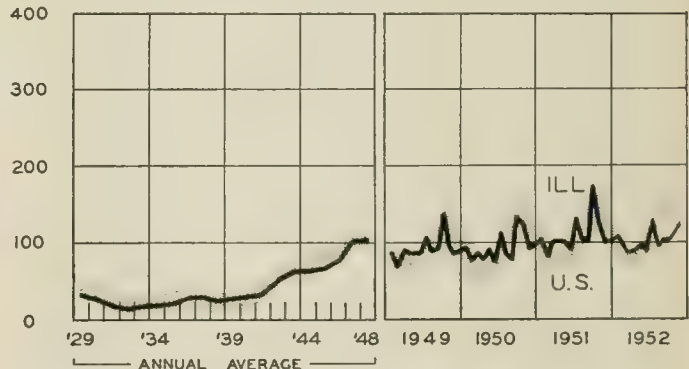
## BUSINESS LOANS



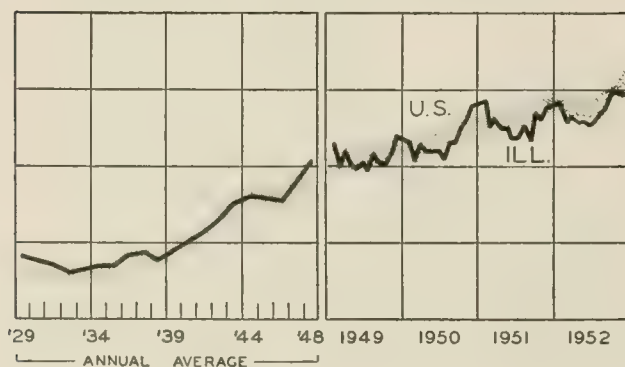
## CONSTRUCTION CONTRACTS AWARDED



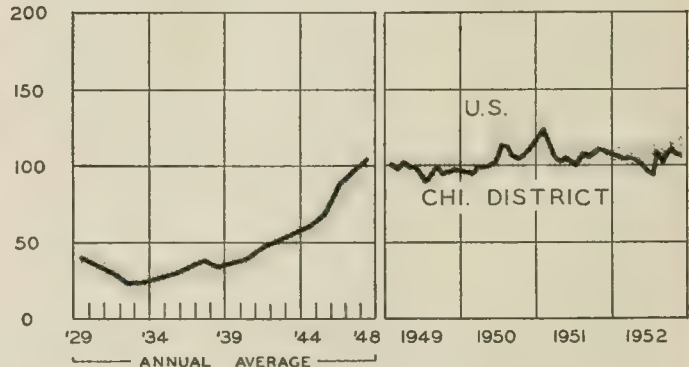
## CASH FARM INCOME



## ELECTRIC POWER PRODUCTION



## DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME X

MARCH, 1953

NUMBER 3

## HIGHLIGHTS OF BUSINESS IN FEBRUARY

Business activity continued strong in February. Unusually mild weather coupled with high consumer and business spending contributed to increased sales at both retail and manufacturers' levels, maintained construction activity at peak rates, and raised industrial production to a new high.

Paced by booming automobile production, the Federal Reserve index of industrial production climbed two points in February to 239 percent of its 1935-39 average; last February the index stood at 222. Nearly half a million passenger cars were produced in February, or an adjusted annual rate of over 6 million cars. Largely as a result, steel production remained close to the January record annual rate of 117 million tons of ingots. Output of major household goods, especially television sets, also continued at high levels.

### Farm Prices Decline

Farm prices continued to make headlines in February, as the index of prices received by farmers declined for the sixth consecutive month, this time by 1.5 percent. Lower prices for cattle, dairy products, potatoes, and feed grains were the main causes for the decline. Prices paid by farmers also declined, but by less than 1 percent, with the result that the parity ratio fell 1 point to 94. Last February the parity ratio stood at 100.

Little change occurred in wholesale prices during the month despite decontrol of a large additional number of items by the Office of Price Stabilization. The main items remaining under control by March were many industrial materials and services, coffee, beer, some heating oils, food waste disposers, and hot water heaters.

### Construction Expenditures High

Construction remained at peak levels in February. The value of new construction put in place, at \$2.2 billion, was only \$100 million lower than in January — a less than seasonal decline — and marked a new high for the month. Though homebuilding and public construction dropped 8 to 9 percent from the January level, private spending on commercial and on other types of nonresidential building continued strong.

For the first two months of this year, outlays for new construction ran 6 percent above the corresponding figure

for last year. Most of the increase, about 5 percent, was attributable to higher material and labor costs; only 1 percent of the rise reflected a higher physical volume of activity.

### Manufacturers' Business Strong

Manufacturers experienced another banner month in January. Sales amounted to \$24 billion, unchanged from the December level after adjustment for seasonal variation, and more than 7 percent higher than in January, 1952. Sharp increases in deliveries of motor vehicles and fabricated metal parts accounted for most of the rise.

Despite the high level of sales, manufacturers' orders continued to accumulate. New orders received by manufacturers rose by about \$1 billion to \$24.3 billion. Though this amount was slightly below December, the order backlog on manufacturers' books at the end of January rose further to a high of \$72.9 billion, more than 8 percent above last January's figure. In the case of durable goods, unfilled orders averaged about six months' sales at the January rate.

Manufacturers' inventories declined slightly to \$44 billion in January as the result of continued liquidation of nondurable goods stocks. The total was nevertheless about \$500 million more than manufacturers' inventories at the end of last January.

### Consumer Installment Credit Rises

January marked the tenth successive month that consumers went deeper into debt on installment sales, mainly on automobile purchases. The rise during January was contrary to the usual seasonal trend. By the end of the month, installment credit had reached a new high of \$16.5 billion, marking a rise of nearly 20 percent over the past year. Installment credit outstanding on automobile sales rose more than 25 percent during the same period.

Despite the rise in installment loans, total consumer credit declined during the month as its other main component, noninstallment credit (such as charge accounts and single-payment loans), fell for the first time in nine months. The decline was a seasonal phenomenon, however, and was wholly concentrated in charge accounts. Total consumer credit at the end of January, at \$23.7 billion, was 15 percent above the level of January, 1952.

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## A Good Year, Then—?

Almost everybody seems to like the boom, but almost nobody trusts it to continue. Business fears are not completely dissipated as 1953 ushers in a new peak of prosperity; they are merely pushed a little further into the future, to a point just beyond the "hump" that can be seen immediately ahead.

Such fears cannot be written off as groundless. It is quite likely that conditions cannot long continue as stable and prosperous as those now anticipated for most of 1953. Nevertheless, the general prevalence of an attitude of confidence tempered by misgivings is precisely what is needed to keep future difficulties at a minimum.

### The Prosperity of 1953

One of the most significant developments of recent months is that, for the first time in the postwar period, the economy has been able to push into new high ground without an inflationary upsurge in prices. Retail prices have been steady for more than a year. Wholesale prices other than farm products and food have held to a corresponding level since last summer, after dropping back from the post-Korean peak of early 1951. Prices of farm products and food have fallen sharply, but the latest reports suggest that the decline may be at an end. Almost the only continuing advances are in rents and service items that have lagged far behind other prices over the past decade.

One reason why these price developments are important is that they help move goods to consumers. They mean that further advances in income will be more fully translated into expenditures and production.

A particularly favorable aspect of this development is its occurrence at a time when the nonconsumption expenditures that have been responsible for the boom are leveling off. Production of military hard goods is still moving up, but the advance is slowing, and the peak rate under present schedules is expected to be reached by the end of the year.

Business outlays for new plant and equipment have been relatively stable for more than two years. Wide-spread forecasts of sharp curtailment in these investments have now generally been abandoned. The results of recent surveys—published by the Department of Commerce in its pamphlet, *Markets After the Defense Expansion*—reveal business plans that should keep investment high,

not only this year but in 1954 and 1955. Nevertheless, moderate declines are expected to begin in the latter part of the year.

Residential construction is generally being projected on a similar pattern. Homebuilding is currently strong, and in the absence of sharp increases in interest rates, the decline expected to begin later this year will probably be moderate.

The only important segment that is now expected to advance steadily through 1953 is made up of the facilities programs of state and local governments. These government units are subject to continuing pressure for highways, schools, hospitals, water, sewage, and other projects. Many of these can no longer be postponed, and the steady increase in such outlays will help to hold the line against declines in other construction.

Considering these factors as a whole, it would seem that although the boom is approaching a limit, the turning process should be a gradual one. Prices should continue stable, because there is not enough of an advance in prospect to push them higher, and incomes will be high enough to prevent any great weakening. Altogether, a very good year!

### How the Picture May Change

What makes all this suspect is the very stability of all these basic factors. None of them is shockproof; and if shocked, they will move, despite the present lack of any such indication. Moreover, since they are not initiating any pattern of change, the changes that occur will be initiated elsewhere—namely, in such volatile short-term factors as inventory accumulation and consumer credit.

In the fourth quarter of 1952, both inventory accumulation and consumer credit were running fairly high. In part, this was no more than a rebound in the durable goods industries as restrictions were eased and steel again became available after the settlement of the strike. The defense industries generally showed a renewal of inventory accumulation. Expansion was most rapid, however, in the auto industry—in manufacturing and even more in distribution, as dealers' stocks were again being built up.

Does this mean that production will again have to be cut back? Not necessarily, because accumulation can be brought to an end by a rise in sales as well as by a fall in production. At the present time the auto industry is aggressively pushing production and sales. Reports indicate that it is now turning out passenger cars at an annual rate of 6 million and that schedules call for maintaining that rate through the second quarter. The question is, How long can this pace be maintained? It is perhaps not too farfetched to think that it could be maintained for a full year, particularly if buying is assisted by a rising stock market and consumers are enticed by competitive price concessions. Nevertheless, it is a high expectation, perhaps overly ambitious under the circumstances, as it may merely be borrowing from a future that is in any case likely to be distinctly lower.

By the same token, if the auto industry can sell cars at the anticipated rate, no downturn in consumer credit is immediately threatened. Consumers necessarily draw upon credit to finance purchases of durable goods. But again, both the advance and the subsequent decline tend to be accelerated.

Considering the inventory picture as a whole, it appears that inventories are high. Perhaps they are no higher than they should be, in view of the large flow of

(Continued on page 6)



### RAILROAD EQUIPMENT PRODUCERS LOOK AHEAD

The location of a sizable segment of the railroad equipment industry in the vicinity of Chicago is not surprising to those familiar with the city's importance as a rail center and as a steel manufacturing center. Cars and locomotives built of local steel can be put into immediate use at the hub of the country's railroad system. Consequently, the Chicago area has become a leader in the production of railroad equipment.

#### Growth and Decline of the Industry

From the Civil War period to the middle of the 1920's, American railroads were expanding steadily as the nation's economy grew. Locomotive and car manufacturers grew with the railroads, and production facilities were built on a scale which could keep up with the ever-increasing needs of the railroads.

In the mid-1920's, the railroad expansion practically came to an end, leaving most producers with excess capacity. Over the next 25 years, railroads lost a large share of the transportation market to buses, trucks, airplanes, and automobiles. (See chart, p. 7.) During the depression, railroad car production was virtually at a standstill and subsequently was restricted by materials shortages during World War II.

Locomotive production has been sustained since the depression chiefly by the introduction of the Diesel engine. The dieselization of American railroads has raised the number of Diesel locomotives in operation from 800 in 1940 to 3,800 in 1945 and to more than 21,000 in the fall of 1952.

Because of the secular decline in the share of both freight and passenger traffic carried by the railroads, a steadily growing volume of freight shipments and passenger travel will be necessary if the railroads are to maintain their volume of traffic. Even a moderate business decline during the next few years might mean a sizable reduction in railroad traffic and would make the equipment now owned by the railroads fully adequate for their needs.

#### Future Hope for the Car Builders

This situation is reflected in the fact that the car manufacturers have had only a few good years in the entire postwar period. Unfilled orders reached a high peak in early 1951 but by December, 1952, almost half of the backlog had been worked off.

The picture is not altogether dark, however. Class I railroads have recently reaffirmed their objective of building the freight car supply to 1,850,000 units by the end of 1954. This involves adding 95,000 cars to the present supply in addition to replacing worn out and obsolete units. If this goal is to be accomplished, production of about 10,000 cars each month will be needed, the highest rate of production since 1923. After 1954, unless estimates of freight car needs are too low, orders will be mostly for replacement, export, and special type cars.

Another encouraging factor for the producers is the fact that over 38 percent of all passenger cars and about 17 percent of all freight cars are more than 30 years old

and another 22 percent of the passenger cars and 21 percent of all freight cars are between 25 and 30 years old. Replacing these older cars may mean increased demand for the builders.

In order to maximize this potential, car manufacturers are improving both the interiors and the riding qualities of their cars. Special efforts are being made to design freight cars in such a manner that a minimum of damage to cargoes will be caused by bumping and jarring. It is estimated that damage to freight in transit costs railroads more than \$100 million each year.

The six establishments manufacturing railway cars in Illinois employ between 6,000 and 7,000 workers. The largest of these is Pullman-Standard of Chicago, which produces both freight and passenger cars. The others, American Car and Foundry, Pressed Steel Car, North American Car, Mather Stock Car, and Thrall, produce freight cars mainly.

#### Locomotive Makers Foresee Necessary Changes

Illinois has two firms making Diesel locomotives—the Electro-Motive Division of General Motors, located at LaGrange, and Fairbanks-Morse of Chicago. Together, these plants received 64 percent on a horsepower basis of all domestic orders placed in the first eleven months of 1952. Electro-Motive is much the larger of the two, having taken about 91 percent of these orders and Fairbanks-Morse about 9 percent.

These manufacturers are now planning against the day when dieselization of the railroads will be completed. It is estimated that this saturation point will not be reached for five or six more years, when the railroads will have 35,000 Diesels in operation. Thereafter, production of new locomotives will have to be mostly for replacement or for export.

Major emphasis is on preparing facilities for the expansion of repair work, servicing, and parts supply. Replacement demand is expected to be small for some time because of the long life of Diesel locomotives. Today, some are still in service after 2.5 million miles, whereas the average steam locomotive went to the scrap heap after 1.5 million miles.

Although both firms are planning along similar lines, Electro-Motive's plan has been more extensively developed so far. This firm has recently completed a giant new servicing and repair depot at LaGrange where locomotives are restyled inside and out, and engines are rebuilt to develop up to 25 percent more horsepower for about two-thirds of the cost of a new engine. Another part of the plan, providing for establishment of a wide network of centers for parts repair and storage throughout the country, will make an inventory of 30,000 parts available within a 24-hour run of any major rail center.

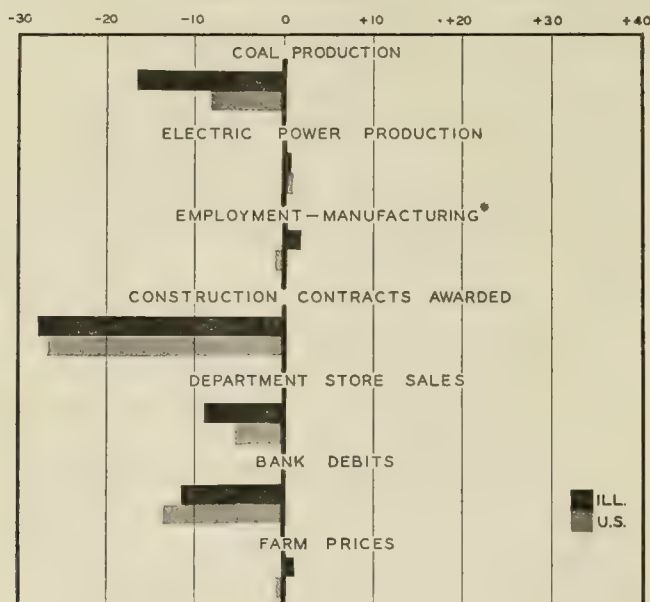
Along with the gradual conversion to this type of business, replacement orders and orders for improved locomotives, like the new Fairbanks-Morse 2,400-horsepower all-purpose Diesel, are expected to keep both plants operating close to capacity in the years just ahead.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes December, 1952, to January, 1953



\* November, 1952, to December, 1952.

## ILLINOIS BUSINESS INDEXES

Item	January 1953 (1947-49 = 100)	Percentage Change from	
		Dec. 1952	Jan. 1952
Electric power <sup>1</sup> .....	162.7	+ 0.3	+13.4
Coal production <sup>2</sup> .....	79.4	-16.3	-18.0
Employment—manufacturing <sup>3</sup> ..	109.2	+ 1.6 <sup>a</sup>	+ 4.1 <sup>b</sup>
Weekly earnings—manufacturing	n.a.		
Dept. store sales in Chicago <sup>4</sup> ...	97.0 <sup>c</sup>	- 8.9	- 6.7
Consumer prices in Chicago <sup>5</sup> ....	114.2	- 0.3	+ 0.2
Construction contracts awarded <sup>6</sup>	90.2	-27.7	-28.1
Bank debits <sup>7</sup> .....	138.2	-11.2	+10.4
Farm prices <sup>8</sup> .....	104.4	+ 0.8	-10.4
Life insurance sales (ordinary) <sup>9</sup> ..	134.0	-12.2	+23.1
Petroleum production <sup>10</sup> .....	93.2	- 1.9	- 1.2

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.  
<sup>a</sup> November, 1952, to December, 1952. <sup>b</sup> December, 1951 to December, 1952. <sup>c</sup> Seasonally adjusted. n.a. Not available.

## UNITED STATES MONTHLY INDEXES

Item	January 1953	Percentage Change from	
		Dec. 1952	Jan. 1952
	Annual rate in billion \$		
Personal income <sup>1</sup> .....	280.5 <sup>a</sup>	+ 0.2	+ 6.5
Manufacturing <sup>1</sup> .....			
Sales.....	291.6 <sup>a</sup>	0.0	+ 7.5
Inventories.....	43.7 <sup>a, b</sup>	- 0.2	+ 1.4
New construction activity <sup>1</sup>			
Private residential.....	9.9	-13.3	+14.9
Private nonresidential.....	9.6	- 4.7	- 0.1
Total public.....	8.2	- 5.4	+ 4.3
Foreign trade <sup>1</sup>			
Merchandise exports.....	n.a.		
Merchandise imports.....	n.a.		
Excess of exports.....	n.a.		
Consumer credit outstanding <sup>2</sup>			
Total credit.....	23.7 <sup>b</sup>	- 1.0	+17.9
Installment credit.....	16.6 <sup>b</sup>	+ 0.3	+24.3
Business loans <sup>2</sup> .....	22.8 <sup>b</sup>	- 1.6	+ 7.9
Cash farm income <sup>3</sup> .....	33.1	- 9.8	+ 5.2
	Indexes (1947-49 = 100)		
Industrial production <sup>2</sup>			
Combined index.....	128 <sup>a</sup>	+ 0.9	+ 7.2
Durable manufactures.....	147 <sup>a</sup>	+ 1.0	+12.4
Nondurable manufactures.....	114 <sup>a</sup>	+ 1.6	+ 3.7
Minerals.....	113 <sup>a</sup>	- 1.8	- 1.2
Manufacturing employment <sup>4</sup>			
Production workers.....	109 <sup>a</sup>	+ 0.4	+ 5.1
Factory worker earnings <sup>4</sup>			
Average hours worked.....	103	- 1.7	+ 0.7
Average hourly earnings.....	131	+ 0.1	+ 5.7
Average weekly earnings.....	134	- 1.6	+ 6.5
Construction contracts awarded <sup>5</sup>	141	-26.7	+19.3
Department store sales <sup>2</sup> .....	109 <sup>a</sup>	- 5.2	+ 0.9
Consumers' price index <sup>4</sup> .....	114	- 0.2	+ 0.7
Wholesale prices <sup>4</sup>			
All commodities.....	110	+ 0.3	- 2.7
Farm products.....	100	+ 0.6	- 9.3
Foods.....	106	+ 1.2	- 4.2
Other.....	113	0.0	- 1.2
Farm prices <sup>3</sup>			
Received by farmers.....	99	- 0.7	-11.0
Paid by farmers.....	113	+ 0.7	- 1.7
Parity ratio.....	95 <sup>a</sup>	- 1.0	- 9.5

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1953					1952
	Feb. 21	Feb. 14	Feb. 7	Jan. 31	Jan. 24	Feb. 23
Production:						
Bituminous coal (daily avg.).....	thous. of short tons.. 1,420	1,392	1,428	1,479	1,535	1,703
Electric power by utilities.....	mil. of kw-hr. 8,196	8,147	8,129	8,151	8,144	7,461
Motor vehicles (Wards).....	number in thous. 152.0	137.4	137.7	141.1	140.6	104.4
Petroleum (daily avg.).....	thous. bbl. 6,446	6,449	6,427	6,428	6,400	6,267
Steel.....	1947-49 = 100. 139.1	139.9	137.1	139.5	139.9	130.1
Freight carloadings.....	thous. of cars. 690	682	691	698	698	683
Department store sales.....	1947-49 = 100. 85	92	88	87	86	83
Commodity prices, wholesale:						
All commodities.....	1947-49 = 100. 109.6	109.4	109.2	109.5	109.6	112.5
Other than farm products and foods.....	1947-49 = 100. 112.8	112.7	112.8	112.8	112.8	114.2
22 commodities.....	1947-49 = 100. 89.5	87.9	87.8	88.7	89.2	103.2
Finance:						
Business loans.....	mil. of dol. 22,715	22,814	22,780	22,837	22,908	21,148
Failures, industrial and commercial.....	number. 176	200	159	162	173	177

Source: Survey of Current Business, Weekly Supplements.



# RECENT ECONOMIC CHANGES

## Machine Tool Orders Up

The index of new orders for machine tools moved up sharply in January to 254.9 (1945-47 = 100), continuing the advance started in December when the relaxation of priority regulations by the National Production Authority provided a source of additional business to tool builders. Prior to this development, the new orders index had fallen from the 1952 high of 376.3 in July to a low for the year of 205.4 in November.

Machine tools shipments also advanced in January, reaching 362 percent of the 1945-47 average. This rise continued the upward movement started a month earlier when the index stood at 355. At present output levels, unfilled orders provide a backlog of slightly over 9 months' work.

## Personal Income Levels

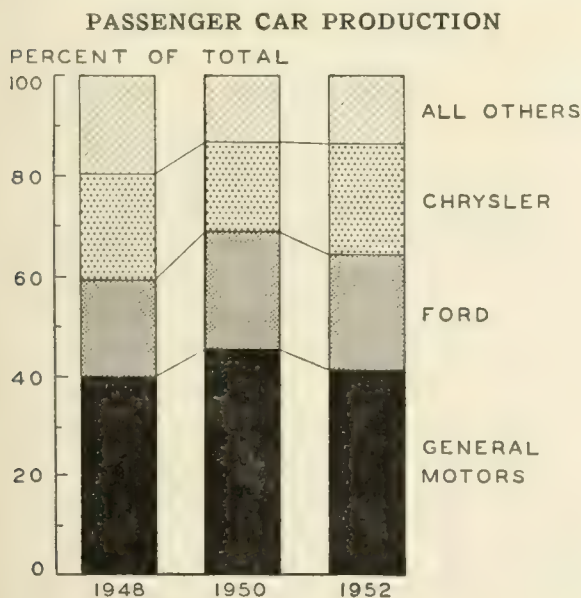
Personal income, seasonally adjusted at annual rates, amounted to \$280 billion in January. This was about the same as in December, but 6 percent higher than in January, 1952.

Private industry wage and salary payments moved up a half billion to \$157 billion during the month, the result of increased payrolls in trade and service industries. Wages and salaries in the manufacturing sector declined slightly to approximately \$67 billion, as the continued advance in average hourly earnings was more than offset by a small reduction in man-hours worked. This was the first month since the steel strike last July that manufacturing payrolls have not advanced.

Farm proprietors' income remained steady at the December level of over \$21 billion, as a further decline in crop prices in January was offset by a higher volume of crop marketings and Commodity Credit loans.

## Passenger Car Production Declines in 1952

In 1952, the automobile industry built 4.3 million passenger cars, a third under the record of 1950 and a fifth under 1951. The decline resulted from a combination of production quotas, slow-ups occasioned by the midyear steel strike, and more than a dozen model changeovers.



Source: Automotive News.

Of last year's output, General Motors' five divisions accounted for 1,800,000 cars, Ford 1,000,000, and Chrysler 950,000. Studebaker and Nash were the largest producers among the independents, accounting for 162,000 and 152,000 units, respectively. General Motors' share of the total declined both in 1951 and in 1952, and as shown by the accompanying chart, accounted for about 4 percent less of the total in 1952 than in 1950. Ford moved from third place in the industry in 1951 to second last year; its production accounted for 23 percent of total output, the same as in 1950. Chrysler's share of passenger car production in 1952 amounted to 22 percent, slightly below 1951 but considerably above 1950, when the three-month strike at its plants sharply reduced the company's output.

The chart also indicates that the Big 3 as a group have held a larger share of the total market since 1950 than they had in 1948. In that year materials shortages still restricted their output while the large backlog of demand enabled the independents to increase their share of the market.

## National Product Renews Climb

Gross national product advanced sharply during the final quarter of 1952 to \$360 billion, \$17 billion higher than in the third quarter. This was by far the largest quarterly advance of the year, and reflects the sizable recovery of hard goods sales and inventory accumulation from their retarded levels in the third quarter, when activity was affected by the steel strike.

### GROSS NATIONAL PRODUCT OR EXPENDITURE

	(billions of dollars)		
	1952	1951	4th Qtr. 1952*
Gross national product.....	346.3	329.2	360.1
Personal consumption.....	216.3	208.0	222.0
Durable goods.....	25.8	27.1	27.3
Nondurable goods.....	119.0	113.5	121.4
Services.....	71.5	67.3	73.3
Domestic investment.....	52.1	58.5	57.3
New construction.....	23.5	23.3	23.7
Producers' durable equipment	25.5	24.9	25.6
Change in business inventories	3.1	10.3	8.1
Nonfarm inventories only ..	2.4	9.4	7.5
Foreign investment.....	.2	.2	.2
Government purchases.....	77.8	62.6	80.6

### INCOME AND SAVINGS

National income.....	290.4†	277.6	300.2†
Personal income.....	268.3	254.1	277.0
Disposable personal income.....	234.3	225.0	242.5
Personal saving.....	18.0	17.0	20.5

\* Seasonally adjusted at annual rates.

† Estimated by the Department of Commerce on the basis of the past relationship of corporate profits and inventory valuation adjustment to private nonfarm gross national product.

For the year as a whole, GNP totaled \$346 billion, 5 percent above 1951's \$329 billion. The gain was evenly divided between increased real output and higher prices. Federal, state and local government purchases of goods and services rose from \$63 billion in 1951 to \$78 billion in 1952. Of the Federal government's \$54 billion, \$49 billion was for national security. Although national security expenditures advanced \$12 billion last year, the quarterly rate of increase within the year was considerably below the rate of defense build-up during the first year and a half following Korea. This leveling off in defense expenditures reflects in part the near attainment of authorized manpower goals. The operation and main-

tenance costs of military equipment and facilities have also stabilized over the past year in line with the current level of military activity.

Gross private domestic investment declined from \$58.5 billion in 1951 to \$52 billion in 1952. This was due entirely to a \$7 billion drop in the rate of inventory accumulation, as businessmen continued to operate with greater caution than in the late 1950 and early 1951 period of scare buying. Outlays for new construction and producer's durable equipment advanced moderately over 1951, amounting to \$25.5 billion and \$23.5 billion, respectively.

As shown in the accompanying tabulation, consumers' buying added materially to GNP last year, as personal consumption expenditures rose by \$8 billion to \$216 billion. Personal saving continued at a high level, amounting to \$18 billion, 8 percent of disposable income. Percentage-wise, this was the same as in 1951, but about double the average for the period 1947-49.

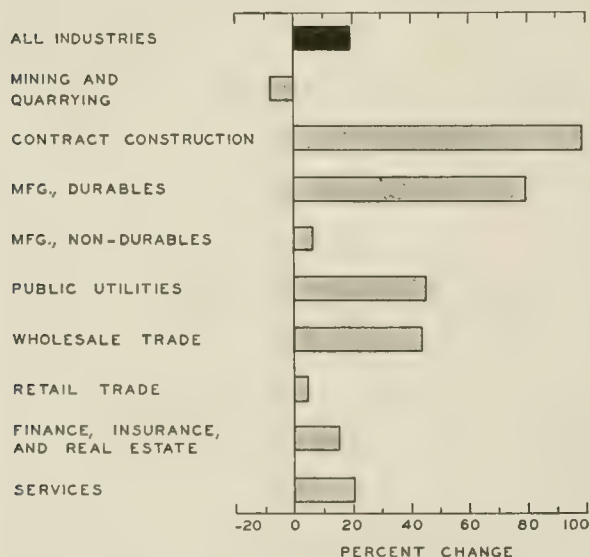
### Business Population Rises Moderately

The number of business firms operating in the United States continued over 4 million in 1952, increasing slightly from 1951. Contract construction and public utilities, principally transportation, accounted for almost all of the advance in the business population last year, as the number of firms in each of these areas increased about 5 percent. Moderate increases in wholesale trade, finance, and service firms balanced a small decline in the number of retail businesses.

Over the past 12 years, there has been a relatively large increase in the number of business firms doing business in the United States. In 1940 the business population totaled 3.4 million concerns, compared with the present 4 million. As shown by the accompanying chart, the greatest advances have been in contract construction, almost doubled, and durable goods manufacturing, up 80 percent since 1940. Other marked increases have been in public utilities and wholesale trade. The only decline during the period was in the mining and quarrying group.

Since the outbreak of hostilities in Korea in mid-1950, the business population has increased by 50,000 firms, with all regions of the nation except the Far West and the North West sharing in the rise.

**CHANGE IN BUSINESS POPULATION, 1940-1952**



Source: U. S. Department of Commerce.

## A Good Year, Then — ?

(Continued from page 2)

goods into military uses, but they are high enough to be troublesome in a decline. Further accumulation would thus threaten an early setback. Fortunately, however, the latest monthly figures suggest that the rate of inventory accumulation has again dropped back, in line with the more cautious policy that dominates the business outlook as a whole. But inventory policy has proved notably unstable during the past four years.

Continuation of the stable prosperity of 1953 is dependent, therefore, upon a rather precarious balance of forces. Once it is disturbed by new developments, the economy will tend to move off sharply one way or the other. A new war scare could again bring on excess buying by both consumers and business and involve us in a new boomlet like that of late 1950. Then if events did not lead on to continuous heightening of world conflict and progressive increases in military programs, the excesses of the boom would again have to be liquidated in a new setback, this time more serious than that of 1951. That is why it is difficult to be very definite about prospects even for the rest of 1953.

### After 1953, What?

Looking beyond 1953, the outlook is even more clouded. In all probability, international developments will dominate the course of business activity. The primary question is, "Shall we be moving toward a hotter war, or will the cold war gradually ease toward a peaceful international adjustment?" This is obviously not a question that can be answered with any assurance.

If conditions remain peaceful, we are seemingly better protected against inflation than deflation. Each year we add substantially to our productive capacity, and these additions represent the best possible weapon in the fight against inflation. The very rapidity of the expansion, however, itself poses a threat of more serious deflation. There are many who hold that so rapid a building up of capacity and of durable goods in use cannot continue indefinitely. Grant their basic assumption—that peace will prevail—and their arguments are persuasive. If the military program declines in accordance with present schedules, a substantial recession may well begin near the end of the year.

On the other hand, if tension mounts, activity will be spurred, controls will be activated, and we may again face all the shortages of a war economy.

It would seem from this that the middle ground of stability is being cut out from under the boom. But only a moderate increase in military spending beyond present schedules could carry us on into 1954 on this high plateau of prosperity. That such a development is not at all out of the question is indicated by the shift in our international policy in line with Secretary of State Dulles' view that we should take the initiative. In essence, it means that instead of fighting when and where the Russians choose, to prevent them from making further gains, we shall make them fight when and where we choose to hold what they already have. Such an aggressive policy can hope for success only as it is backed by power; so the building of power is likely to be correspondingly accelerated.

The Russians, however, may again localize the conflict by meeting our challenges with the same restraint we displayed in Korea; and in that event, the situation would continue the same. Thus, all the possibilities remain open for 1954 and beyond.

VLB



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### New Tools

An unusual drill for both the home workshop and industry has been announced by the Carboloy Department of the General Electric Company, Detroit 32, Michigan. A unique feature of the drill is that it automatically removes dust particles from the hole it makes. The tool's self-cleaning action is due to a shallow oval spiral and overhang on the tip which keeps the particles moving out of the hole. The manufacturer points out that the drill eliminates the possibility of jamming while boring through tough masonry such as bricks, concrete, plaster, slate, and asphalt.

A tiny electric soldering iron no bigger than a pencil has been designed for industrial use, though market tests have shown that hobbyists also like it for home soldering projects. Produced by the Lenk Manufacturing Company, Boston, Massachusetts, the iron is recommended especially for use with electronic components, precision instruments, and radio and TV parts. Though it weighs only two ounces and measures 7½ inches long, the manufacturers claim it is sturdy enough to stand up under continuous production line use. The soldering iron has a plastic handle, a plated copper tip, and comes with either a 25-watt or a 40-watt rating. The retail price is approximately \$4.50.

### Effective Administration

The main job of the chief operating executive of a small manufacturing concern is to get things done by workers at all levels and to make his company a good place in which to work. Twenty-four practical ideas on successful administration are presented in *Management Aids for Small Business, No. 19*, obtainable free of charge from the Small Defense Plants Administration, Washington 25, D. C.

Some suggestions to executives which are discussed in the pamphlet are as follows: emphasize skill, not rules, in your organization; know your subordinates and try to determine what is important to each; give your workers objectives and a sense of direction; delegate responsibility for details to subordinates; ask your staff for counsel and help, listening thoughtfully and objectively to their ideas; tell the originator of an idea what action was taken and why; criticize or reprove constructively and in private; pass the credit for success on down to the operating personnel.

### Plastic Skin Dressings

A plastic spray-on dressing designed to prevent infection and to facilitate the removal of adhesive tape and casts from tender skin is being sold by Larson Laboratories, Erie, Pennsylvania. Called Adhesive Balm, the new product is squirted on the skin to form a protective film upon which the bandage is applied. When the time comes to remove the adhesive tape, there is little or no pain, according to Larson.

Another type of plastic spray-on dressing, this one called Aeroplast, is being developed by the Air Force with the help of Protective Treatments, Inc. of Dayton, Ohio. The dressing is sprayed directly on the injured parts of a victim's body from a pressurized container. Tests to date show that it makes gauze bandages unnecessary. Besides its quick application, Aeroplast has the advantages of transparency and easy removal. Useful

in the treatment of many types of wounds and surgical cases, the dressing can be applied by an untrained operative, is less expensive than gauze, and can be stored indefinitely in a minimum amount of space.

### Noise Analyzer

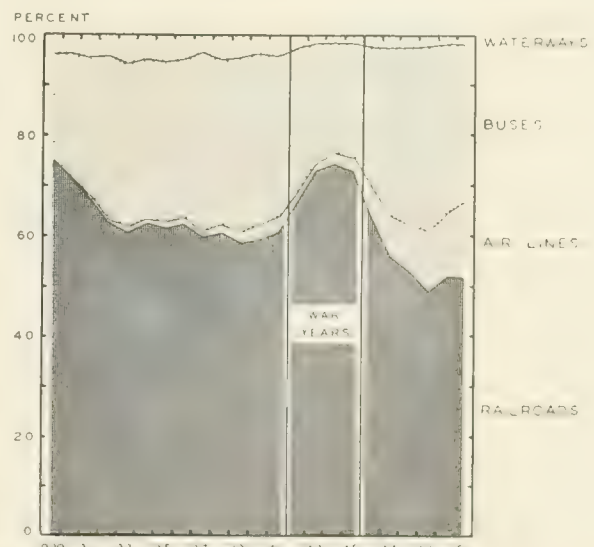
A portable sound analyzer designed to break plant noises down into their respective frequency bands has been developed by Hermon Hosmer Scott, Inc., 385 Putnam Avenue, Cambridge 39, Massachusetts. The operator, carrying the analyzer around the plant, can distinguish how often a particular noise occurs and how loud it is. According to the manufacturer, a sound's frequency can affect a worker as much as its loudness. Even a soft noise repeated often enough makes employees tense and inattentive. About the size and weight of a portable typewriter, the analyzer sells for \$619.

### Public Passenger Carriers

Various changes have occurred during the past twenty years in the percentage distribution of intercity travel by public carriers. One of the most important is the gradual decline in the share of business done by steam and electric railroad companies (see chart). Whereas in 1929 they accounted for 75 percent of all intercity travel, by 1951 their share had dropped to 51 percent.

During the depression years when most people had little money for travel, the railroads lost heavily to bus companies, who offered a less expensive means of transportation. After the outbreak of war in 1941 and with the imposition of gas rationing, the railroads were temporarily able to almost regain their former position. But since 1946, they have again suffered a heavy loss in passenger miles traveled, primarily because of the rapid growth of air travel. In 1951 the air lines handled more than 15 percent of all passenger miles traveled as compared with only 6 percent in 1946. The intercity bus companies, whose mileage share increased during the depression but then declined during the war years, have only been able to recover their prewar share.

INTERCITY PASSENGER TRAVEL, 1929-1951



Source: Interstate Commerce Commission.

# A HIGHER PRICE FOR MONEY?

ROLAND I. ROBINSON

Professor of Banking, Northwestern University

When the presidential campaign was at its hottest last fall, it was assumed that a Republican victory would mean higher interest rates. So far events have seemed to justify this view. Recently United States government bond prices have been weak. Nevertheless, it is far from clear that major changes in interest rate levels are to be expected. Indeed, it can be argued that such changes as come are likely to be moderate. While business is active, many observers are apprehensive about the longer term business outlook. Under such circumstances, the new officials are not likely to take the sort of vigorous and decisive steps that would precipitate marked interest rate changes.

The change of administration came with the economy operating at a very high level. Physical productivity is undoubtedly at an all-time high even including the period of forced-draft work during the war. Employment is full or overfull; jobs seem to be seeking men more often than men are seeking jobs. If it were not for the fact that some prices, particularly those of farm products, were receding, the situation could almost be described as inflationary.

Nevertheless a great many both in the new government and outside it are apprehensive; they fear a change in economic activity. The typical business forecast is: "Six months of prosperity and then what?" And it is significant that the fear is primarily of a downturn. Fears of inflation are uncommon. A greater concern about depression is doubtless based on the fact that the boom has already run for such a long period. Yet for all the apprehensiveness, little can be found in the business picture to indicate any early decline. In the critical markets for capital goods and for consumer durable goods and housing, there is as yet no real slackening. Business is good.

## Background on Interest Rates

Before the new administration took office, interest rates had already hardened considerably. The chief factor had been the change of Federal Reserve policy in the early spring of 1951; but natural economic factors have been pushing interest rates up. For a while in the spring of 1952 it was thought that this upward drift might have been about completed. But money markets were seasonally tight during the fall and this helped to prod interest rates up a bit further. And then after the turn of the year, when Federal Reserve discount rates were advanced, money rates resisted the normal seasonal tendency to decline.

The Federal Reserve has described its new monetary policy as one of "neutrality." In concrete terms this neutral money market policy seems to be that of using open market operations only to offset currency changes and variations in gold stock. In the past year ended in mid-February, the amount of currency in circulation has gone up about \$1¼ billion; and gold has declined about one-third of a billion. During the same period the Federal Reserve open market account increased about \$1½ billion; in other words not quite enough to offset the influence of gold and currency changes.

Banks operating in the money market have felt that neutrality hardly describes the prevailing credit policy;

they have felt the market to be tight. Strictly speaking, however, a really tight money market would be one in which banks were scrambling to secure the reserve funds they needed. It would usually be a market in which banks were liquidating loans, or at least making very few new loans. Those were the classic tests of money market tightness in times gone by. But during the past year banks have continued to increase their loan accounts. The rate of loan expansion was not quite as rapid as in 1951; it was considerably less than the loan burst during the second half of 1950. But commercial bank loans increased at about the rate of 10 percent during 1952. Loans went up considerably faster than the physical volume of business.

Perhaps the feeling of tightness was more a reaction from the excessively easy money markets that have prevailed for more than two decades. In order to make loans, banks either had to attract new savings deposits, to sell United States government securities, or to allow their maturing issues to go unreplaced. With a free market this process has not been quite as easy as it has been in earlier periods. Nevertheless, it would be stretching words to have called the period just past one of real money tightness.

## The Capital Markets

In the long-term capital markets demand continues to be high. Business capital outlays have been at record levels, and outside financing has continued to be necessary. Although bank loans were drawn upon less than in 1951, new security issues were up in 1952. Higher depreciation charges were not quite up enough to offset the decline in retained corporation earnings.

Residential construction in 1952 was exceeded only by 1950; the dollar cost came even closer to 1950 figures than the number of starts would indicate. State and local governments have been large net borrowers. Consumers also borrowed heavily to finance their purchases.

But even though the demands have been high, savings have tended to keep pace. Once the consumer scare buying in early 1951 was past, subsequent savings were very high. Savings have averaged between 8 and 9 percent of disposable income. The level of savings has been enough to keep long-term interest rates from advancing a great deal. Corporate bond yields were virtually unchanged over the year 1952. The return from tax-exempt state and municipal obligations went up somewhat but part of the reason was that these issues had to burst out of the narrow market that gains full advantage from tax exemption.

## Character of Interest Rate Changes to Date

When all of the economic and policy factors are added together, one can be more impressed by the modest size of the changes in interest rates than by the fact that some changes have occurred. With such a persistent capital boom, long-term interest rates might have gone up a great deal. If Federal Reserve money market policy had been really harsh, short-term rates would not only have gone up; they could easily have gone above long-term rates and produced a down-sweeping yield curve. This happened in the early 1920's. The fact that neither



of these events came to pass can be attributed to the large private savings and the mildness of Federal Reserve policy.

Such interest rate changes as took place were mainly of the sort that flattened out the yield curve. As the accompanying chart shows, the present yield curve is almost level. It is the flattest we have had during the past two decades. Yield differentials between maturities have been reduced greatly.

## Dominant Factors in 1953

At the moment nothing in sight indicates a likely and sizable change in the level of business activity. Inflationary developments (without war) seem remote. Deflationary factors are not yet evident.

Without any striking or dramatic business news to change the money and capital markets, it is likely that the dominant factor in the interest rate picture for 1953 will be the financial policies of the new administration. So far, these policies are not quite as clear as they were expected to be at the time of the election. There are many good reasons for this cloudy picture of public policy.

The new officials will not be anxious to disclose their hand on monetary policy much faster than conditions require. Nothing would be more damaging to a party just assuming office after a long period on the sidelines than to make an early mistake of judgment. To move precipitously into a firmer money policy just as business conditions were turning down would be the sort of classic bull that haunts politicians. The periods at which monetary policies must be disclosed will be the times of heavy financing. Gratuitous actions or words at other times might do harm; they can do little good.

The first refunding announcement of the Treasury in February could be considered a rather mild effort to get longer term money. And the results, in spite of official protests to the contrary, could have been counted disappointing. In the period immediately ahead—the second quarter of 1953—the Treasury will have no important financing dates. Heavy tax collections obviate the need for new money borrowing. A \$5-billion issue of certificates will need to be refunded in June but this probably will not be a very appropriate time for a striking change

in refunding policy. An optional offering may be made, probably of the cautious type used in February.

The really critical dates will be in September when the 2 percent bonds of 1951-53 reach final maturity and must be refunded. The implied policies of trying to get more of the public debt into long-term issues will be tested at that time. If capital demands continue to be as strong as they have recently been, the Treasury may have to compete with borrowers who are willing to bid freely for money. At the moment capital outlays seem to be holding at planned levels.

The extent to which the Treasury will be able to refund the public debt into longer maturities will depend on the rate of private savings. So far long-term savings have been high enough to support the capital boom but left little margin for anything else. If the Treasury tries to crowd this margin, long-term rates will probably rise; if they approach it cautiously there may be little change.

## Outlook Summarized

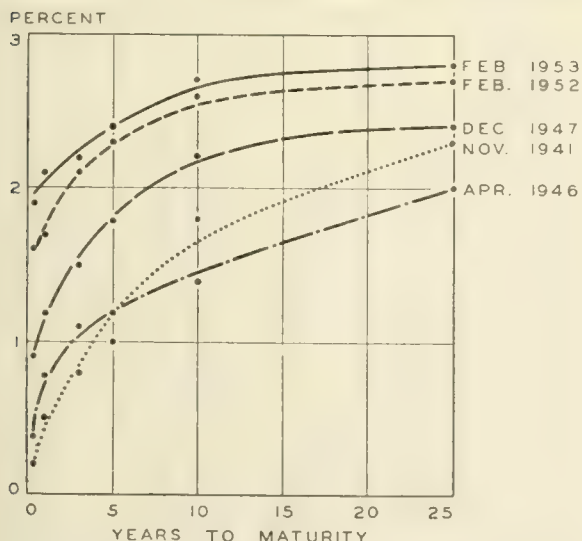
For the period immediately ahead, sharp and decisive changes in interest rates are unlikely. The critical testing of rates will come later in the year. The test of short-term interest rates will come in the fall when some loan expansion would normally be expected. If this demand appears, the public authorities will be able to use it to increase short-term rates further if this should be thought wise. Conversely, if they should facilitate the fall loan financing it might be taken as a sign of resistance to interest rate increases.

The critical test of long-term rates will come when (and if) the Treasury makes a serious effort to refund into longer maturities. If this effort is made promptly, rates are likely to go up. But if this test is side-stepped for a while, then the chances of a large rate change will become more and more remote. If the officials wait for "a more receptive market," this will almost certainly mean that they do not intend to allow rates to go up a great deal.

But while the chances of interest rate advances may be minimized, the prospects for declines are even more remote. Even an unexpected softening in business conditions would not have as prompt interest rate effects as might be expected. While evidence of softer business would almost certainly mean an abrupt easing in credit policy, the first effect of such a policy would be principally on short-term rates. In fact, there probably would be a considerable lag even in the response of such rates. As a result there would be some gaps in the interest rate structure. Prices of outstanding long-term securities might tend to go up, but asking rates on mortgages and the prices of newly issued securities might not reflect the changed market very promptly. Institutional investors might find it hard to employ all of their funds at the old higher rates, but they would be reluctant to start a competitive rate-cutting drive. Somewhat the same thing might occur in the short-term market. Quotations on outstanding short-term Treasury securities might reflect the changes in the market promptly but customer loan rates would be somewhat slower to adjust to the new circumstances.

Adding up the parts, it might be said that higher interest rates are more likely than lower rates but the range of advance probably is limited—unless a clearer public preference for high rates emerges. An early and aggressive policy of refunding would change this forecast. But at the moment neither earliness nor aggressiveness seems to be in prospect.

YIELD ON U. S. GOVERNMENT SECURITIES



Sources: For 1941, 1946, and 1947, Henry Murphy, *National Debt in War and Transition*, pp. 100, 245. For 1952 and 1953, current market reports.

# LOCAL ILLINOIS DEVELOPMENTS

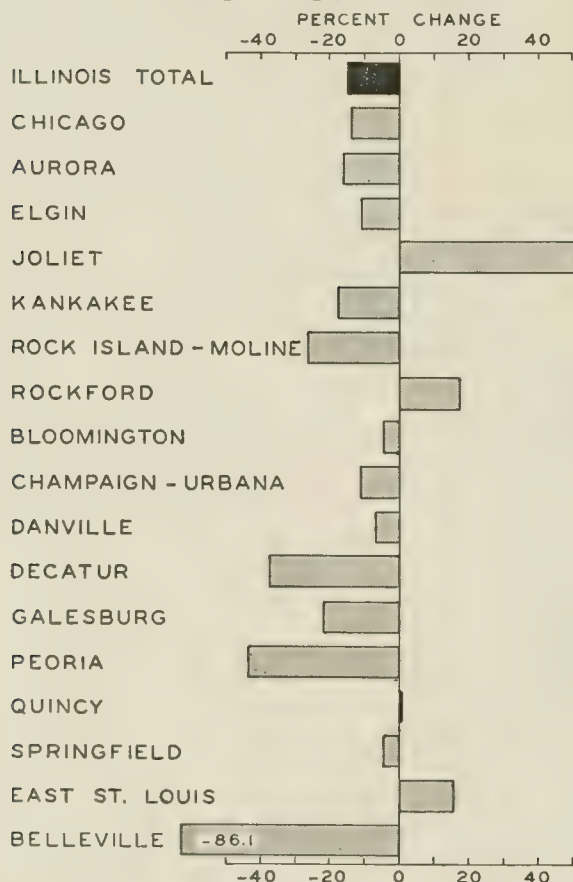
Despite seasonal declines, Illinois business activity continued brisk in January. Steel production set a new record, business loans increased for the fifth consecutive month, and prices received by Illinois farmers were slightly above the December level, reversing a four-month decline. On the other hand, coal production was off from December and from January, 1952, as were construction contracts awarded, department store sales, and petroleum production. Bank debts, electric power production, life insurance sales, and steel production each increased 10 percent or more above January of last year.

## Illinois Livestock

Cattle feeding in Illinois on January 1, 1953, was up 25 percent from a year ago. The percentage increase was greater than that for the nation as a whole, 16 percent. As a cattle feeding state, Illinois with its 630,000 head of cattle ranked a close third behind Iowa and Nebraska. The number of sheep and lambs on feed for market in Illinois, estimated at 239,000 head on January 1, 1953, was 10 percent more than at the beginning of 1952, though down 7 percent for the nation as a whole.

Turkey producers, both in Illinois and in the United States, plan to raise fewer birds in 1953. Illinois growers expect to reduce production to 975,000 turkeys, 6 percent less than the record 1,037,000 raised in 1952. Reasons given for the intended decrease in production include lower turkey prices in relation to feed prices and record cold storage holdings.

**VALUATION OF BUILDING PERMITS**  
Percentage Change, 1951 to 1952



Source: Bureau of Labor Statistics.

## Construction in Illinois

Total building permits issued during 1952 in seventeen Illinois cities were off nearly 15 percent from their 1951 level, as shown by the accompanying chart. Belleville declined most (86 percent), but Peoria and Decatur also experienced substantial losses. Only four cities reported increases and one of these increases (Quincy) was fractional. The value of 1952 building permits in Joliet, up 51.6 percent from 1951, increased more than that of any of the other cities shown. During January, 1953, permits issued, although seasonally low, were 45 percent above December and 55 percent higher than the same month of the preceding year.

The value of construction contracts awarded in Illinois during January declined 27.7 percent from December as a result of lessened activity in residential and non-residential building. Comparison with data for a year ago shows that Illinois dollar volume was down 28 percent. Nonresidential construction declined nearly 40 percent and public works and utilities were off 56 percent from January, 1952. Construction contracts awarded in northern Illinois did not follow the state-wide pattern, however, rising 15.6 percent above last January.

The Atomic Energy Commission recently announced that the nation's first plant designed solely for processing and assembling atomic explosives will be built on government property at Camp Ellis in Fulton County. Construction of the \$29-million project will begin early this spring. Nearly 10,000 acres of ground have been set aside for the plant. Operating personnel, estimated at 2,000 persons, will not be hired until the new plant is almost complete, probably about the middle of 1954.

## Consumer Prices

The consumer price index for Chicago was down 0.3 percent from December to January because of lower prices reported for food, apparel, reading, recreation, housing, personal care, and other goods and services. Compared with June, 1950 (pre-Korea), the index was up 11.1 percent.

Prices received by Illinois farmers in January were above those of the preceding month for the first time since last August, though 10.4 percent below those of the same month a year ago. The parity ratio for Illinois remained at 95, whereas on January 15, 1952, it was 104.

## Retail Sales

Retail sales of eighteen large Illinois cities rose 28 percent from November to December, whereas for the nation as a whole, sales were up only 19.7 percent. Excluding Joliet where the gain was 6 percent, the increase over November ranged from 22.3 percent in Belleville to 32.8 percent in Bloomington. Heavy Christmas buying and an additional trading day in 1952 were at least partially responsible for the 10 percent advance in retail sales over December, 1951. Year-to-year gains varied from 5.6 percent in Peoria to 21.8 percent in Joliet. Total retail sales were 3 percent higher in 1952 than in 1951.

Department store sales were up 7 percent from December a year ago, according to the Research Departments of the Federal Reserve Banks in the Seventh and Eighth Districts. Cities for which percentage changes were calculated showed increases over December, 1951, ranging from 4 percent in Decatur to 14 percent in Quincy.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

January, 1953

		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b>							
		<b>\$14,884<sup>a</sup></b>	<b>992,447<sup>a</sup></b>	<b>\$688,756<sup>a</sup></b>		<b>\$12,082<sup>a</sup></b>	<b>\$11,847<sup>a</sup></b>
Percentage Change from...	{ Dec., 1952.....	+44.8	+2.7	+28.0	-53.0	-11.2	-33.1
	{ Jan., 1952.....	+54.7	+5.6	+9.9	-5.0	+10.4	+0.4
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b> .....		<b>\$12,130</b>	<b>771,898</b>	<b>\$506,310</b>		<b>\$11,031</b>	<b>\$10,226</b>
Percentage Change from...	{ Dec., 1952.....	+54.2	+2.2	+29.0	-53.0	-11.7	-32.5
	{ Jan., 1952.....	+63.2	+5.8	+9.7	-6.0	+10.8	+0.4
<b>Aurora</b> .....		<b>\$ 137</b>	n.a.	<b>\$ 9,747</b>		<b>\$ 52</b>	<b>\$ 87</b>
Percentage Change from...	{ Dec., 1952.....	+104.5		+27.7	-56.0	+5.8	-31.8
	{ Jan., 1952.....	+153.7		+12.7	-2.0	+17.4	+3.0
<b>Elgin</b> .....		<b>\$ 215</b>	n.a.	<b>\$ 7,221</b>		<b>\$ 28</b>	<b>\$ 75</b>
Percentage Change from...	{ Dec., 1952.....	+8.6		+28.4	n.a.	-8.1	-46.0
	{ Jan., 1952.....	+264.4		+7.9		-1.2	+12.8
<b>Joliet</b> .....		<b>\$ 236</b>	n.a.	<b>\$14,690</b>		<b>\$ 61</b>	<b>\$ 80</b>
Percentage Change from...	{ Dec., 1952.....	-47.0		+5.9	-57.0	-7.2	-45.4
	{ Jan., 1952.....	+181.0		+21.8	+7.0	+19.7	+7.8
<b>Kankakee</b> .....		<b>\$ 63</b>	n.a.	<b>\$ 6,961</b>		n.a.	<b>\$ 31</b>
Percentage Change from...	{ Dec., 1952.....	+14.5		+24.4	n.a.		-44.4
	{ Jan., 1952.....	+18.9		+19.4			-1.3
<b>Rock Island-Moline</b> .....		<b>\$ 104</b>	<b>21,632</b>	<b>\$12,709</b>		<b>\$ 36<sup>b</sup></b>	<b>\$ 165</b>
Percentage Change from...	{ Dec., 1952.....	-74.6	+10.2	+29.1	n.a.	+2.2	-28.7
	{ Jan., 1952.....	-73.9	+5.2	+8.2		+5.5	+10.1
<b>Rockford</b> .....		<b>\$ 665</b>	<b>32,894</b>	<b>\$20,435</b>		<b>\$ 144</b>	<b>\$ 197</b>
Percentage Change from...	{ Dec., 1952.....	+105.2	+4.4	+29.4	n.a.	-6.2	-32.1
	{ Jan., 1952.....	+261.4	+16.8	+8.8		+11.0	+2.4
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b> .....		<b>\$ 20</b>	<b>6,925</b>	<b>\$ 6,951</b>		<b>\$ 58</b>	<b>\$ 97</b>
Percentage Change from...	{ Dec., 1952.....	-56.5	+6.5	+32.8	n.a.	+6.4	-19.0
	{ Jan., 1952.....	-71.4	+16.3	+12.8		+13.2	-6.1
<b>Champaign-Urbana</b> .....		<b>\$ 33</b>	<b>8,936</b>	<b>\$ 9,281</b>		<b>\$ 53</b>	<b>\$ 79</b>
Percentage Change from...	{ Dec., 1952.....	-59.8	+3.1	+29.4	n.a.	+2.8	-41.7
	{ Jan., 1952.....	-57.1	+1.4	+12.4		+3.8	-3.6
<b>Danville</b> .....		<b>\$ 105</b>	<b>8,657</b>	<b>\$ 7,925</b>		<b>\$ 42</b>	<b>\$ 52</b>
Percentage Change from...	{ Dec., 1952.....	-13.2	+2.7	+29.2	-61.0	-1.6	-44.4
	{ Jan., 1952.....	+90.9	+9.3	+11.5	-1.0	+2.1	+7.0
<b>Decatur</b> .....		<b>\$ 71</b>	<b>22,395</b>	<b>\$12,297</b>		<b>\$ 82</b>	<b>\$ 98</b>
Percentage Change from...	{ Dec., 1952.....	-73.4	+5.1	+30.6	-56.0	-9.7	-37.6
	{ Jan., 1952.....	-42.7	+3.6	+8.4	-10.0	-0.9	+1.4
<b>Galesburg</b> .....		<b>\$ 19</b>	<b>6,705</b>	<b>\$ 5,333</b>		n.a.	<b>\$ 34</b>
Percentage Change from...	{ Dec., 1952.....	-29.6	+4.1	+26.2	n.a.		-40.3
	{ Jan., 1952.....	-29.6	+5.8	+10.1			+5.3
<b>Peoria</b> .....		<b>\$ 525</b>	<b>47,223<sup>c</sup></b>	<b>\$21,927</b>		<b>\$ 194</b>	<b>\$ 187</b>
Percentage Change from...	{ Dec., 1952.....	+303.8	+4.1	+23.6	-56.0	-13.5	-50.0
	{ Jan., 1952.....	+277.7	-5.2	+5.6	+6.0	+4.3	-11.1
<b>Quincy</b> .....		<b>\$ 32</b>	<b>7,545</b>	<b>\$ 6,236</b>		<b>\$ 37</b>	<b>\$ 74</b>
Percentage Change from...	{ Dec., 1952.....	+60.0	+12.5	+29.6	-61.0	+1.4	-31.5
	{ Jan., 1952.....	-59.0	+9.5	+8.9	-7.0	+9.2	+3.3
<b>Springfield</b> .....		<b>\$ 271</b>	<b>26,512<sup>c</sup></b>	<b>\$17,271</b>		<b>\$ 97</b>	<b>\$ 232</b>
Percentage Change from...	{ Dec., 1952.....	+238.8	-0.2	+25.2	n.a.	-2.7	-23.2
	{ Jan., 1952.....	+16.3	+2.4	+6.5		+6.3	+1.7
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b> .....		<b>\$ 106</b>	<b>13,564</b>	<b>\$11,628</b>		<b>\$ 136</b>	<b>\$ 71</b>
Percentage Change from...	{ Dec., 1952.....	+211.8	+6.5	+25.6	n.a.	-9.9	-33.2
	{ Jan., 1952.....	-78.1	+10.2	+12.0		-1.5	+1.6
<b>Alton</b> .....		<b>\$ 77</b>	<b>11,729</b>	<b>\$ 6,552</b>		<b>\$ 33</b>	<b>\$ 30</b>
Percentage Change from...	{ Dec., 1952.....	+5.5	+4.0	+29.1	n.a.	-8.6	-47.2
	{ Jan., 1952.....	+196.2	+5.9	+12.8		+9.3	+1.1
<b>Belleville</b> .....		<b>\$ 75</b>	<b>5,833</b>	<b>\$ 5,282</b>		n.a.	<b>\$ 33</b>
Percentage Change from...	{ Dec., 1952.....	+108.3	+7.5	+22.3	n.a.		-55.1
	{ Jan., 1952.....	+78.6	+19.2	+9.4			-27.5

Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for December, 1952, the most recent available. Comparisons relate to November, 1952. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. <sup>5</sup> Local post office reports.

<sup>a</sup> Total for cities listed.

<sup>b</sup> Moline only.

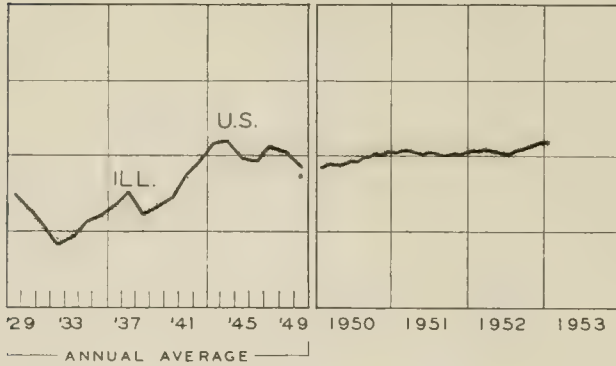
<sup>c</sup> Includes immediately surrounding territory.

n.a. Not available.

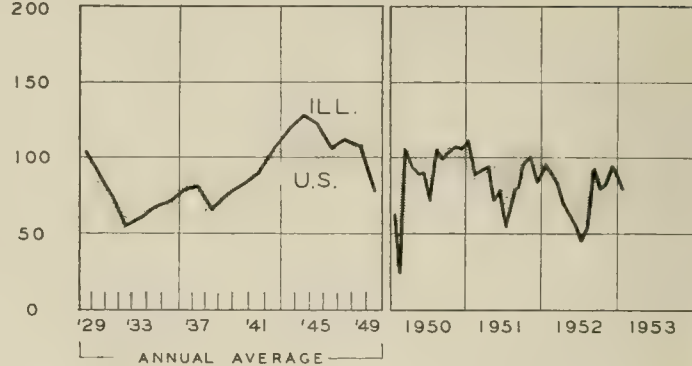
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

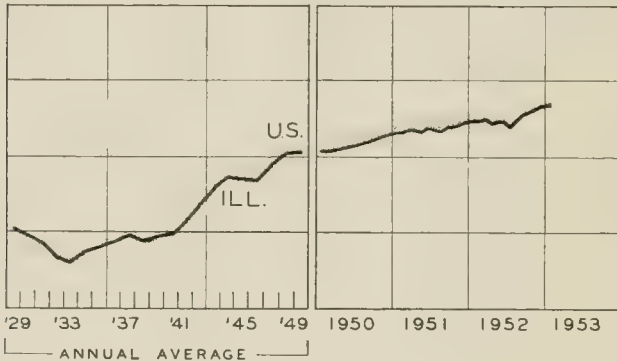
## EMPLOYMENT - MANUFACTURING



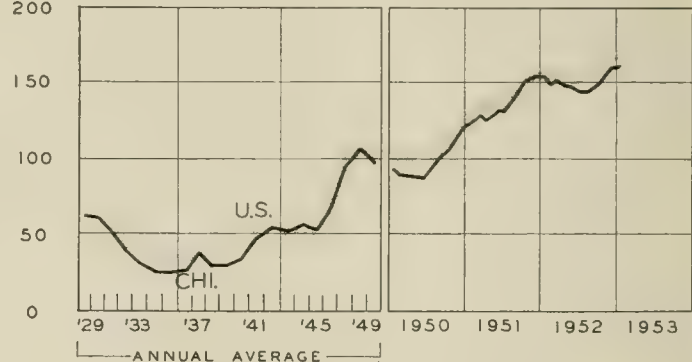
## COAL PRODUCTION



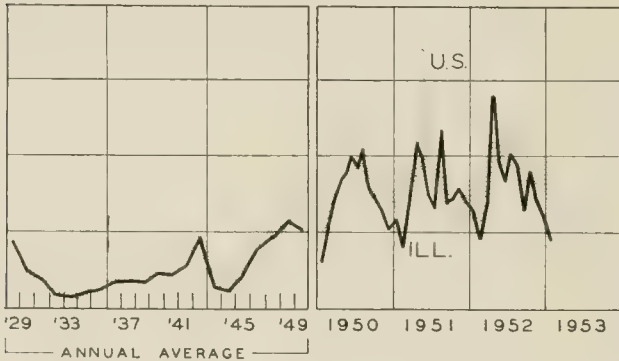
## AVG. WKLY. EARNINGS - MANUFACTURING



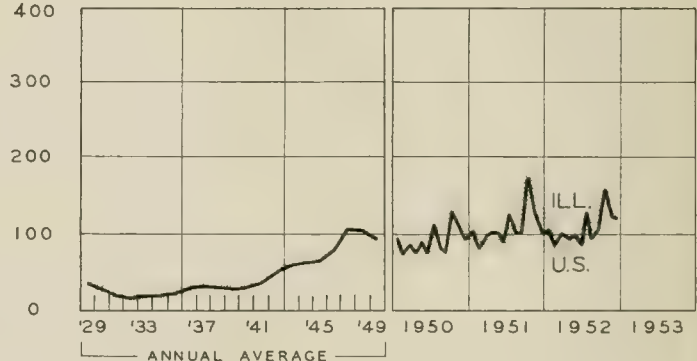
## BUSINESS LOANS



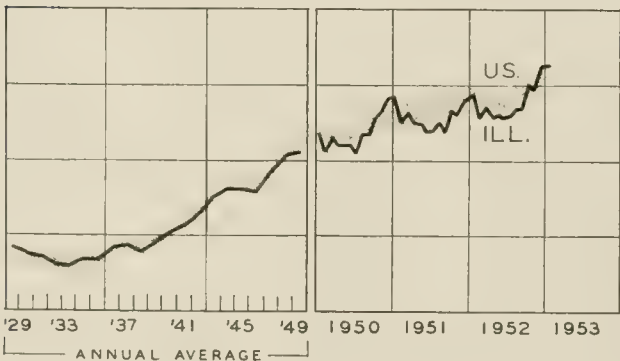
## CONSTRUCTION CONTRACTS AWARDED



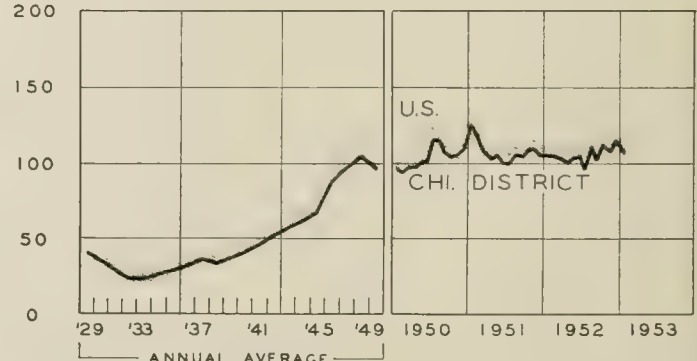
## CASH FARM INCOME



## ELECTRIC POWER PRODUCTION



## DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME X

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## HIGHLIGHTS OF BUSINESS IN MARCH

Industrial production in March reached a new postwar high for the seventh successive month. Up two points to an estimated 241 percent of the 1935-39 average, this new level of the Federal Reserve index represents a gain of 11 percent over the output level a year ago.

Activity in industrial and military equipment lines continued at high levels, with steel ingot production rising to a new peak. Automobile output also soared, with cars rolling off assembly lines at an annual rate of 6.5 million. Car production in April is expected to rise an additional 10 percent to meet the anticipated seasonal upturn in sales.

Department store sales in March ran well ahead of last year, registering a 12 percent gain for the month. The fact that Easter occurred earlier this year does not account for more than a third of this gain.

### Employment Up

Pre-Easter store trade and increased activity on farms and in other outdoor occupations pushed employment in March up 500,000 to 61.5 million. This represents a gain of 1.7 million over the employment level of last March. Nonfarm employment, at 55.7 million, set a new high for the month, about 2 million above the level of a year ago.

Unemployment in March fell slightly from the preceding month's level to 1.7 million. This is somewhat below last year, and amounts to only 2.7 percent of the total (civilian) labor force.

### Jitters on the Stock Market

On the first trading day after Red China's proposal to break the prisoner-of-war deadlock, a move presumably opening the way to end the fighting in Korea, stock prices dropped sharply and continued to decline into April. Within a week, the Dow-Jones composite average of 65 high-grade stocks was down nearly 6 points, or about 5 percent, with rails and aircraft suffering the heaviest losses. Premature belief in an early end of the cold war, leading to fears of deflation if government expenditures were cut sharply, was the cause for the decline.

Commodity prices exhibited greater stability, though they also declined at the end of the month. The Bureau of Labor Statistics index of spot commodity prices declined slightly at the end of the month as did the comprehensive index of wholesale prices. Farm prices rose moderately in the month ended March 15.

Another decline in living costs was reported as the consumers' price index fell in February to 188.6 percent of the 1935-39 average. As a result, wage reductions—in some cases as high as 3 cents an hour—were in prospect for workers whose wages were tied to the cost of living by escalator clauses.

### Construction Activity Maintains Record Pace

With the coming of spring, the construction boom appeared to gain new momentum. Up seasonally by 10 percent over the preceding month, the value of new construction put in place in March reached \$2.5 billion, as compared with \$2.3 billion in March of last year.

Private construction outlays accounted for the biggest part of the gain from the February level, rising more than seasonally to \$1.7 billion. The principal factor in this rise was a sharp spurt in private home-building. Public construction outlays also increased, though activity on many projects was slowed to permit the Budget Bureau to review the priority of military construction programs.

For the first quarter of 1953 new construction expenditures hit a new high of \$7 billion, 6 percent more than in the first quarter of last year.

### Capital Expenditure Outlook Bright

Capital expenditures by American business in 1953 may well exceed last year's record levels, according to a recently conducted government survey of capital plans. If the programs contained in those plans are carried out on schedule, expenditures this year on new plant and equipment would total \$27.0 billion, as compared with outlays of \$26.5 billion last year.

The largest increase in capital outlays is scheduled by the public utilities, the planned expenditures of which total \$4.4 billion, up 14 percent over last year. Manufacturers' expected outlays, at \$12.0 billion, would be the same as last year's, a projected 5 percent increase in new plant and equipment expenditures of nondurable goods manufacturers being offset by a reported 5 percent decline in outlays by durable goods manufacturers. Railroads, on the other hand, anticipate a 7 percent drop in capital outlays.

The survey on which these estimates were based was conducted during February and early March. To what extent, if any, these figures would be modified by the recent Communist peace gestures remains to be seen.

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## Conditions Favor the Market

In the first week of the Russian "peace offensive" stock prices broke sharply. The averages dropped to new lows for 1953, losing about two-thirds of the gains from the pre-election lows of last October. Seemingly, the market had placed its own interpretation on a policy shift that left the experts puzzled.

The new turn of affairs certainly seems to reduce the possibility of war in the years immediately ahead. That it involves a significantly lower stimulus to business is not so clear. Suspicion will prevent any quick reduction of military programs; and foreign aid may have to be increased to keep NATO and the European Defense Community from falling apart. Immediately, all that the relief from tension has done is to spark the drive for tax reductions. Cuts in taxes may in fact outweigh reductions in expenditures sufficiently to increase the government's net contribution to economic activity.

Though the basic economic situation would appear, therefore, to be little changed, some shift in the possibilities for short-term fluctuations has taken place. The chances of a new inflationary upsurge are greatly reduced, and the possibility of a quickening deflation based on a runoff of inventories like that of 1949 is correspondingly increased. However, business concern over inventories antedated the death of Stalin; and the caution introduced by widespread forecasts of a recession later in the year kept inventories stable in the opening months. If liquidation should now get under way, it would probably be moderate enough to leave 1953 a very good year.

### The Position of the Market

The stock market, in anticipating a possible letdown, is not necessarily reversing the major trend. A realistic appraisal of the initial setback is that it represents little more than the usual sensitivity to change. If the Russians had turned toward war instead of peace, the immediate reaction might well have been the same.

The norm for stock prices is set by profits. Prices may deviate from this norm at times, but they ultimately depend upon prospective earnings and dividend yields in comparison with interest rates obtainable on bonds. Today, the ratio of prices to earnings is relatively low; and the dividend yields at 5½ percent are well above the 3¼ percent obtainable on high-grade bonds. Prospects are that both factors will remain favorable for the remainder

of 1953. The outlook for business volume and profits remains good; and as the special article in last month's *Review* indicated, interest rate increases are likely to be moderate.

Nor is the market highly vulnerable to declines in either respect. Stocks in some civilian industries are already so thoroughly deflated that they are likely to show improvement despite any recession likely to occur this year. Dividends of corporations now in the excess profits tax bracket are frequently so well protected that a drop of more than 50 percent in earnings before taxes would leave them adequately covered. Earnings have also been restrained by the extraordinary rise in depreciation charges. These have been increasing at a rate of about \$4 billion annually. They correspondingly depress earnings but increase the cash available for maintaining dividends. In addition, the upward trend of interest rates would be reversed, helping to maintain the favorable margin of dividend yields.

What gives rise to fears of a decline is the fact that stock prices are again near the peak which preceded the great crash of 1929. At that time, prices were undoubtedly too high; but prices are relative, and what was high then is not necessarily high now.

Some reasons why the same level of prices is not necessarily too high now are given in an article by Irwin Friend in the March issue of *Fortune*. Since 1929, national income has tripled and corporate profits after taxes have doubled. The financial condition of corporations has generally improved. Interest charges amount to only 8 percent of profits before taxes and interest, as against more than 30 percent in 1929.

Moreover, the market of recent years has displayed none of the symptoms of speculative excitement that have usually preceded crises. In 1952 trading on the New York Stock Exchange was less than a tenth of national income and only 15 percent of the value of stock listed; in 1929, it was nearly twice national income and 150 percent of value listed. In the current bull market, there has been little expansion of credit for the financing of stock purchases; in the late 1920's, stocks were typically carried on small margins and brokers' loans rose to over \$8 billion. In short, there is nowhere in evidence any of the speculative excesses that characterized past peaks.

### Groups that Make the Market

The *Fortune* article also confirms and adds substance to the analysis of group action that was presented in the July, 1951, issue of the *Review*. Foremost among these groups are the financial institutions that have been given responsibility for such a large portion of the community's savings—including investment companies, insurance companies, savings banks, corporate pension funds, universities, and other trust funds. These institutional investors hold about a quarter of the \$190 billion of common and preferred stocks not in the permanent investment accounts of the corporations themselves and a larger proportion, about 30 percent, of stock listed on organized exchanges.

Net purchases of stock by these institutions averaged close to \$1 billion a year since 1949 and rose to a peak of \$1.25 billion in 1952. With the flow of investment funds continuing and the record of profits they have piled up, it would be difficult for them not to keep on buying. There is reason for believing that the flow of funds from these institutions into stocks will not just continue but increase. The *Fortune* article concludes from a survey that net purchases may average around \$1.5 billion during the next

(Continued on page 6)



### ILLINOIS CANDY MAKERS

One of the oldest industries in Illinois rests on the solid foundation of what is perhaps the weakest part of man's anatomy — his sweet tooth. Man's taste for sweets has been with him through the ages and is not likely to disappear in the foreseeable future.

Not only did the earliest settlers in the New World find time to make sweets of various kinds, but ancient records tell us that the Greeks and Romans served sweets made of crushed dates, honey, and grapes. At that time, candy was a rare treat to any except the wealthy, but today it is a regular part of the diet of millions of people, rich or poor.

#### Frontier Candy Factories

The first candy factory in Illinois was established by John Mohr in 1837 on South Water Street in Chicago. Chicago was then hardly more than a frontier trading post, and candy was considered a treat by people accustomed to living for months on cornbread.

The swift growth of Chicago encouraged the expansion of the candy industry even during the depression years following the panic of 1837. By 1840, Chicago had three candy factories employing three workers in addition to the proprietors and representing a total capital of \$825.

The varieties of candy produced by these factories were few in number and simple in composition. Candy sticks, coconut cakes, jelly babies, and occasionally burnt almonds were produced. They also made chocolate drops, and sometimes coated them with varnish to keep them from spoiling!

After the introduction of corn syrup in the 1870's, the size of candy pieces increased, but little improvement was made in quality until the 1880's when the industry made a conscious effort to improve its standards. Better quality candies were made possible by the incorporation of new ingredients and the substitution of machine processes for hand operations. Because of the lower cost of machine-made candy, producers were able to improve quality without raising prices and the industry was on its way to becoming one of the leading food-processing industries.

#### Illinois Leads in Candy Production

The Illinois candy industry, which began in such a modest way in 1837, has grown into the largest in the country. Only 141 of the nation's 1,686 candy factories are located in Illinois, but these plants produced about one-fourth of total candy supplies in 1952. Their output was double the amount produced by the State's nearest rival, New York.

Listed among the Illinois producers are many of the industry's pioneers. The Paul F. Beich Company was founded in Bloomington in 1854. In 1872 the Cracker Jack Company, then known as F. W. Rueckheim and Company was started in Chicago, followed by Bunte Brothers in 1876. About 99 percent of 1952 sales by Illinois manufacturers were made by producers in the Chicago area.

The candy industry has been an asset to Illinois not only because it employs 23,000 workers, but also because of its demand for agricultural commodities. Over three billion pounds of innumerable agricultural products, many of which are produced on Illinois farms, are used by the industry each year.

#### Sales Disappoint Producers

Recently, the confectionary industry has not been getting what it considers to be a proportionate share of the consumer's dollar. In the past, candy sales could be predicted accurately on the basis of national income changes and population growth. In the last few years, however, sales have fallen substantially below the levels which were predicted on the basis of these indicators. Sales in 1952 were \$961 million, \$38 million below the 1951 level and only \$6 million above the level of sales in 1950. During this period, both national income and population increased substantially.

Several explanations have been advanced for this dip in sales. Candy bar manufacturers, who were particularly hard hit, have to sell at prices that are rather rigidly fixed at five and ten cents. At the same time, materials prices have risen, in some cases as much as 400 percent above prewar levels, severely squeezing profit margins and making it very difficult to maintain weight and quality standards. As a result, demand for candy bars has fallen off; and because Illinois produces a very large percentage of its output in the form of candy bars, the sluggish demand has reduced this State's share of the nation's total output from 30 percent in 1947 to less than 25 percent in 1952.

Some manufacturers feel that promotional campaigns for homemade confections launched by ingredient producers have taken away a part of the market for ready-made confections. Another factor sometimes mentioned is the importation of chocolate and sugar confectionary. The effects of imports have probably been limited, however, inasmuch as imports constitute less than one-half percent of total sales.

The industry plans to bring demand for its products back to its customary levels. At present the National Confectioners' Association is conducting a concerted promotion campaign on a nation-wide basis to boost candy as a delicious, nourishing food. New distribution channels are being sought to improve turnover and merchandising. The NCA is also hoping to get amendments to the Food and Drug Act giving producers wider discretion in choosing ingredients and revision of the farm program as it affects domestic and foreign prices of candy ingredients.

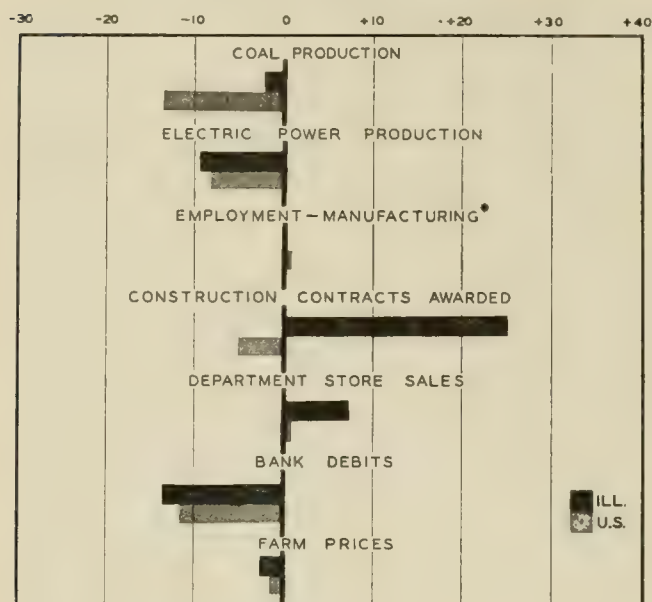
The success or failure of these plans will probably be influenced a good deal by the direction and extent of changes in raw material prices and by the response of consumers as they become accustomed to higher candy prices. If these changes do not present new obstacles to the industry's efforts, candy may soon be back to its old place in the consumer's budget.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes January, 1953, to February, 1953



\* December, 1952, to January, 1953.

## ILLINOIS BUSINESS INDEXES

Item	February 1953 (1947-49 = 100)	Percentage Change from	
		Jan. 1953	Feb. 1952
Electric power <sup>1</sup> .....	147.3	- 9.5	+14.0
Coal production <sup>2</sup> .....	77.8	- 2.0	-13.8
Employment—manufacturing <sup>3</sup> ..	111.1	+ 0.0 <sup>a</sup>	+ 6.2 <sup>b</sup>
Payrolls—manufacturing.....	n.a.	.....	.....
Dept. store sales in Chicago <sup>4</sup> ....	104.0 <sup>c</sup>	+ 7.2	0.0
Consumer prices in Chicago <sup>5</sup> ....	113.9	- 0.3	+ 1.1
Construction contracts awarded <sup>6</sup>	113.0	+25.2	+25.3
Bank debits <sup>7</sup> .....	119.4	-13.6	+ 1.8
Farm prices <sup>8</sup> .....	101.6	- 2.6	-11.8
Life insurance sales (ordinary) <sup>9</sup> ..	132.7	- 1.0	+19.9
Petroleum production <sup>10</sup> .....	85.4	- 8.4	- 3.9

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.

<sup>a</sup> December, 1952, to January, 1953. <sup>b</sup> January, 1952, to January, 1953. <sup>c</sup> Seasonally adjusted. n.a. Not available.

## UNITED STATES MONTHLY INDEXES

Item	February 1953	Percentage Change from	
		Jan. 1953	Feb. 1952
Annual rate in billion \$			
Personal income <sup>1</sup> .....	280.4 <sup>a</sup>	- 0.1	+ 6.4
Manufacturing <sup>1</sup> .....			
Sales.....	303.6 <sup>a</sup>	+ 4.1	+ 7.7
Inventories.....	43.9 <sup>a,b</sup>	+ 0.2	+ 1.6
New construction activity <sup>1</sup> .....			
Private residential.....	9.1	- 7.1	+12.4
Private nonresidential.....	9.6	0.0	+ 1.4
Total public.....	7.6	- 8.7	+ 1.1
Foreign trade <sup>1</sup> .....			
Merchandise exports.....	14.3	- 6.4	-11.2
Merchandise imports.....	10.3	- 7.8	- 4.3
Excess of exports.....	4.1	- 2.9	-24.8
Consumer credit outstanding <sup>2</sup> .....			
Total credit.....	23.5 <sup>b</sup>	- 0.7	+19.3
Installment credit.....	16.7 <sup>b</sup>	+ 0.9	+26.6
Business loans <sup>2</sup> .....	22.7 <sup>b</sup>	- 0.6	+ 7.3
Cash farm income <sup>3</sup> .....	22.5	-31.1	- 6.9
Indexes (1947-49 = 100)			
Industrial production <sup>2</sup> .....			
Combined index.....	129 <sup>a</sup>	+ 1.3	+ 7.7
Durable manufactures.....	149 <sup>a</sup>	+ 1.9	+13.4
Nondurable manufactures.....	115 <sup>a</sup>	+ 1.5	+ 4.2
Minerals.....	112 <sup>a</sup>	- 0.6	- 2.4
Manufacturing employment <sup>4</sup> .....			
Production workers.....	110 <sup>a</sup>	+ 0.5	+ 5.6
Factory worker earnings <sup>4</sup> .....			
Average hours worked.....	103	- 0.2	+ 0.7
Average hourly earnings.....	131	+ 0.1	+ 6.0
Average weekly earnings.....	135	- 0.1	+ 6.7
Construction contracts awarded <sup>5</sup>	134	- 5.1	+15.4
Department store sales <sup>2</sup> .....	112 <sup>a</sup>	+ 0.9	+ 5.7
Consumers' price index <sup>4</sup> .....	113	- 0.4	+ 0.9
Wholesale prices <sup>4</sup> .....			
All commodities.....	110	- 0.3	- 2.6
Farm products.....	98	- 1.7	- 9.2
Foods.....	105	- 0.4	- 4.0
Other.....	113	0.0	- 1.0
Farm prices <sup>3</sup> .....			
Received by farmers.....	98	- 1.5	- 9.0
Paid by farmers.....	112	- 0.7	- 2.8
Parity ratio.....	94 <sup>c</sup>	- 1.1	- 6.0

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp. <sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1953					1952
	Mar. 28	Mar. 21	Mar. 14	Mar. 7	Feb. 28	Mar. 29
Production:						
Bituminous coal (daily avg.).....thous. of short tons..	1,367	1,353	1,410	1,350	1,417	1,639
Electric power by utilities.....mil. of kw-hr.....	8,019	8,075	8,138	8,173	8,070	7,263
Motor vehicles (Wards).....number in thous.....	169.4	159.3	155.6	148.8	157.6	124.0
Petroleum (daily avg.).....thous. bbl.....	n.a.	6,391	6,352	6,343	6,424	6,304
Steel.....1947-49 = 100.....	144.7	142.4	142.2	140.8	139.5	133.3
Freight carloadings.....thous. of cars.....	715	701	700	685	669	725
Department store sales.....1947-49 = 100.....	112	109	100	96	93	101
Commodity prices, wholesale:						
All commodities.....1947-49 = 100.....	110.0	110.2	109.9	109.9	109.7	112.3
Other than farm products and foods..1947-49 = 100.....	113.4	113.4	113.3	113.2	113.1	113.8
22 commodities.....1947-49 = 100.....	90.3	90.5	90.3	90.0	89.7	100.6
Finance:						
Business loans.....mil. of dol.....	23,337	23,418	23,139	22,922	22,711	21,364
Failures, industrial and commercial..number.....	188	160	165	180	178	164

Source: Survey of Current Business, Weekly Supplements.



# RECENT ECONOMIC CHANGES

## Employment Rises Seasonally

The number of persons employed in March totaled 61.5 million, 500,000 above February and 1.7 million above March, 1952. Nonagricultural employment advanced seasonally to 55.7 million, and was 2 million higher than March, 1952, the previous record for the month. The number of farm workers also increased last month as spring planting got under way in some parts of the country.

Unemployment declined slightly during March to 1.7 million. Census data in thousands of workers are as follows:

	March 1953	February 1953	March 1952
Civilian labor force.....	63,134	62,712	61,518
Employment.....	61,460	60,924	59,714
Agricultural.....	5,720	5,366	6,012
Nonagricultural.....	55,740	55,558	53,702
Unemployment.....	1,674	1,788	1,804

## Record Steel Production in March

After settlement of the steel strike last summer, steel production climbed sharply and in the closing months of 1952 and the first quarter of 1953 reached unprecedented highs. Output for the first quarter totaled 28 million tons, about 2 million tons ahead of the first three months of 1952. In March, steel mills turned out an estimated 10 million tons of ingots and castings, the highest in the industry's history. At an annual rate of 120 million tons, production exceeded rated capacity by about 2.5 million tons.

Last year, steel mills spent \$1.2 billion for expansion of plant and equipment. As shown by the accompanying chart, nearly 9 million tons of capacity were brought into use, raising the total to a record 117.5 million net tons of ingots and castings. Since the end of World War II capacity has risen by 26 million tons, or by approximately 30 percent. About 65 percent of this increase has occurred since June, 1950. The steel companies' present

programs of expansion and improvement indicate that capacity will be raised by another 4 million tons in 1953.

## Consumer Expectations in 1953

Consumers expect larger incomes coupled with lower or stable prices throughout 1953, and on this basis are planning to buy more houses, automobiles, furniture, and television sets this year than last. These findings, based on interviews with 2,400 consumers throughout the country, are the preliminary results of the Federal Reserve Board's eighth annual survey of consumer finances conducted during January and February. Though by no means conclusive, the survey does give some general clues to the strength and nature of probable consumer demand for 1953.

According to the report, more consumers plan to buy new cars this year than in either 1952 or 1951. Plans to buy major household goods, especially television sets and furniture, are substantially more numerous than a year ago. Intentions to buy refrigerators are about the same as in 1952. Plans to purchase new and used houses in 1953 are slightly more numerous.

Nonfarm consumers as a group anticipate larger incomes this year than last. At the same time, eight out of ten spending units believe prices will remain stable or decline. This is a substantial reversal from their position in January and February of 1951 and 1952 when half to two-thirds of the consumers questioned expected prices to rise.

## Corporate Security Offerings

New corporate securities offered for cash last year amounted to \$9.7 billion, about one-fourth higher than in 1951 and only slightly under the record \$10 billion offered in 1929. Net proceeds totaled \$9.6 billion, of which \$8.3 billion was for new money purposes, including \$6.4 billion for new plant and equipment and \$1.9 billion for additional working capital.

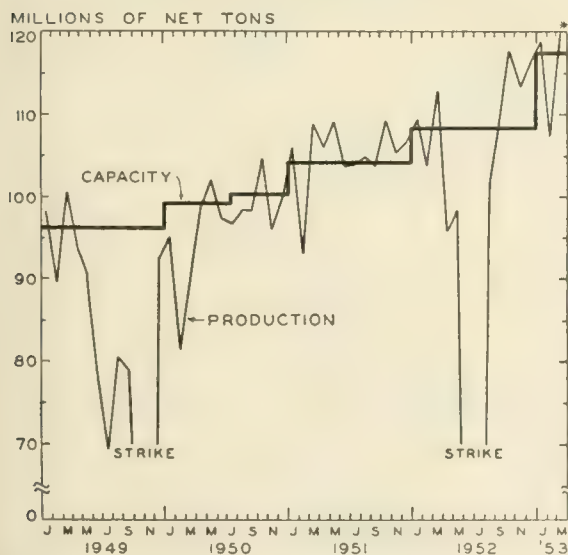
The proportion of capital expenditures financed by funds obtained from security flotations varied considerably between industry groups, with the over-all figure at about 28 percent. Utilities obtained more than 50 percent of their requirements in the securities market, in comparison with manufacturing companies, which obtained less than 20 percent of their new funds in this manner.

## Hourly Earnings Continue at Record Level

Hourly earnings of factory production workers in February continued at a record level of \$1.74, including overtime and other premium pay. This was the same as in January, when wage stabilization controls were still in effect, and was 10 cents or 6 percent higher than in February, 1952. The gain in hourly earnings over last February reflects cost-of-living and other wage rate adjustments, increased overtime work, and a larger proportion of workers in the higher-paid durable goods industries.

The average workweek declined from the January level of 41.1 hours to 40.0 hours, but was up slightly from February, 1952. Gains of more than half an hour over last February occurred in the textile, apparel, and transportation equipment industry groups, whereas the average workweek in defense-related ordnance, chemical, and ma-

**STEEL PRODUCTION AND CAPACITY**  
(Production at annual rates)



\* ESTIMATE

Source: American Iron and Steel Institute.

chinery groups fell by half an hour or more as fewer hours of overtime were worked.

## Sales Advance in February

Manufacturers' sales in February climbed to a record \$25.3 billion, at seasonally adjusted rates. This was 4 percent above the January level and 8 percent above February a year ago. Sales of durables moved up 6 percent during the month to \$12.9 billion, mainly because of general advances throughout the heavy-goods groups. Nondurables rose 2 percent to \$12.3 billion, the result of small increases in all groups except apparel.

New orders advanced 4 percent, from \$24.3 billion in January to \$25.3 billion in February. Durable goods industries received most of the increase but unfilled orders for durables declined slightly during the month to \$70 billion, or about 6 months' work at the current level of sales.

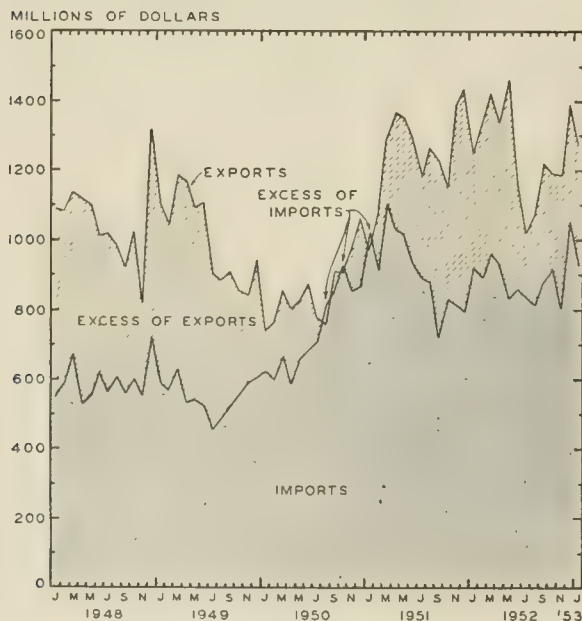
## International Trade in 1952

The value of United States exports advanced to a record \$15.2 billion in 1952, exceeding exports in 1951 by \$200 million. During the course of the year, however, foreign demand for U.S. nonmilitary goods fell sharply, and it was only because of a substantial rise in military shipments under the Mutual Security Program that total exports were above 1951. The value of imports declined \$300 million during the year to \$10.7 billion. This decline was entirely attributable to lower prices for foreign goods, since the volume of imports remained at the 1951 level.

As shown by the accompanying chart, the decline in export trade occurred after June, 1952. As a result, the export surplus (excluding military shipments) was reduced to an annual rate of \$1.2 billion for the last 7 months of 1952, compared with \$4.0 billion in the earlier months of the year.

Lowered activity in the textile industry both here and abroad, plus the availability of large stocks accumulated in 1951, led to a substantial decline in raw cotton exports. Reduced shipments of grain, coal, and petroleum products accounted for much of the remaining drop in exports.

### EXPORTS AND IMPORTS



Source: U. S. Department of Commerce.

## Conditions Favor the Market

(Continued from page 2)

few years. This is not assured, of course, as policy is always subject to reversal if prospects change or if prices rise enough to reduce yields substantially.

The operations of these large investors give the market a conservative tone, as they concentrate on the better grade issues. For this reason, the price rise has tended to leave behind the more speculative "secondary" issues. Moreover, their operations run toward certain "fashionable" industries, creating disparities between stocks in the favored industries and those less highly regarded. The result is to create attractive opportunities for the general public, the second large group of investors which is helping to make the market.

Considering only one segment of this second group, the little fellow whose purchases and sales are made in odd lots, there has been an excess of purchases over sales through most of the postwar period. Although odd-lot customers account on the average for less than 10 percent of the total value of trading, their net purchases on the New York Stock Exchange totaled \$350 million in each of the last two years.

The rise in the market over this period has whetted appetites for more of the same. Definite evidence of the swing away from long-standing fears to market participation is provided by the Federal Reserve surveys of consumer finances. There has been a steady rise in the proportion of respondents favoring common stocks as investments, from 2 percent in 1949 to 8 percent in 1952. The potential number of new participants remains extremely large and their liquid reserves are at an all-time high.

The prospect of relative stability in commodity prices, which was cited last month as so important for continued prosperity, favors increasing public participation. Feelings of insecurity engendered by rapidly changing prices have the effect of depressing market action. It may be recalled that the market break of 1946 occurred at a time when price controls were being lifted and that the market peaks of 1929 were reached in a period when the trend of commodity prices was slightly downward. Increasing public confidence is shown by the fact that 70 percent reported in the Federal Reserve survey this year that they were as well or better off than last year; and the proportion reporting themselves worse off was almost a fourth lower.

The third group making the market may be described as the professional traders and speculators. They are still jittery, as they have been through most of the postwar period. Again considering only one part of the group for whom data are available, the members of the stock exchange, it is found that they made annual net sales of about \$250 million during the last two years. They seem likely to remain net sellers in the period ahead, though their confidence has been strengthened somewhat by the Republican victory last November. As their holdings dwindle they will place a less definite restraint on the market and may at times be found lining up with the public.

All this leads to the conclusion that for the immediate future, perhaps all through 1953, the odds distinctly favor the bulls. It does not rule out the possibility that a wave of pessimism could turn the tide; but if business remains good, earnings are supported by tax reductions, and yields remain well above bond rates, pessimism seems unlikely to persist. The market will remain vulnerable to shocks, but in the absence of a basic change in conditions, such temporary setbacks may be discounted.

VLB



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

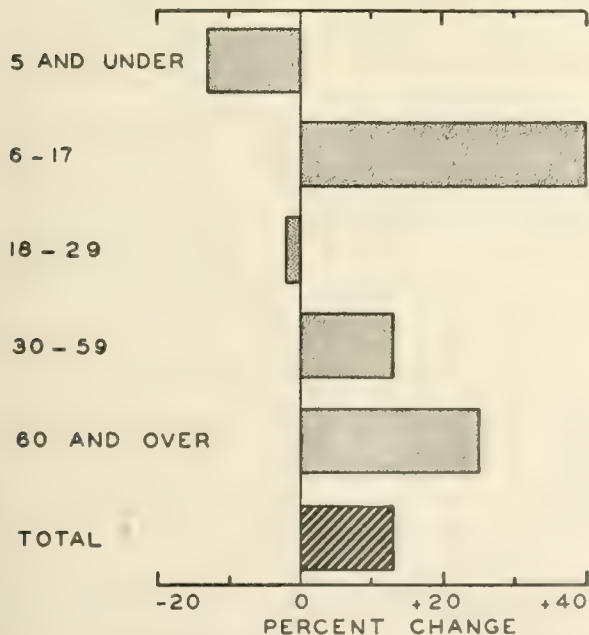
### Electric Heating Panel

Among the many types of radiant heating on the market today is a new electrical panel called "Uskon" which can be cemented to the ceiling like wallpaper and painted with any light-color flat paint. Measuring only 1/16th of an inch in thickness and weighing 6 ounces per square foot, each panel consists of a thin sheet of conductive rubber (the heating element) sandwiched between thin, paper-like plastic sheets and aluminum foil. Easily installed, Uskon panels offer the homeowner an opportunity to add radiant heating to a new room of his house or to supplement existing heat in such places as a den, expansion attic, or garage. Climate, insulation, and other factors determine how many panels are required. The manufacturer, United States Rubber Company (Rockefeller Center, New York 20, New York), states that operating cost is comparable with that of other fuels where electricity is available for 1½¢ per kilowatt-hour or less. Installation cost amounts to approximately \$40 per panel or about \$300 for two bedrooms and a bath in an expansion attic about 400 square feet in size.

### Population Projections by Age Groups

In 1960 the total population will be 171 million, or 13 percent above the 1950 Census count of 151 million, according to a recent projection of the Bureau of the Census. The accompanying chart, which shows the expected population change by age distribution, reveals that the greatest gain—40 percent—will be in the 6 to 17 age group. By 1960 these postwar babies will be in grade school and high school, implying a need for more school facilities. The second highest increase, 25 percent, is predicted for persons in the group 60 years old and over, a continuation of the long-term trend toward the growing importance of the aged in our population.

PERCENT CHANGE IN U. S. AGE DISTRIBUTION,  
1950 TO 1960



Source: Bureau of the Census.

The prospective decline of 2 percent in the population aged 18 to 29 is attributable to a low birth rate during the depression years. As a result, the level of household formation will probably decline during the decade. Since a 13 percent increase in the 30 to 59 age group is forecast for 1960, the total labor force composed primarily of a combination of the 18 to 29 and 30 to 59 age groups should rise 8 percent within the ten-year period. But if the total population grows at a faster rate, increased productivity of the normal labor force as well as better utilization of the skills of people over 60 will become necessary to maintain the present standard of living.

### Rubber Feed Trough

An all-purpose rubber livestock trough designed to replace the wooden ones now in use has been produced by Goodyear Tire and Rubber Company. The unit, which looks like a rubber wash tub, is practically indestructible, according to the company. It won't break, rust, or tip over when stepped on or butted by animals. Made of tough fabric and high quality rubber, the new trough will be useful for salt, water, or feed, and it is expected to cut waste of these items. Distributed by farm and feed stores, the rubber troughs sell for approximately \$6 each.

### Essentials of Retail Business

A useful guide for the operator of any retail business and one especially helpful to the beginning retailer is a comprehensive book by Robinson and Haas entitled *How to Establish and Operate a Retail Store*. The second edition, published in 1952 (New York: Prentice-Hall), has been brought up to date with new material and with several additional features.

Opportunities in retailing and the qualifications of a successful merchant are presented in Chapter 1. Subsequent chapters discuss the problems of selecting a location, financing a retail establishment, organizing and arranging the store, record keeping, buying merchandise, merchandising, store operation, employment and training of employees, sales promotion, merchandise display, successful selling techniques within the store, outside selling, store protection, and the merchant's relationship with the community. Replete with suggestions for successful operation, this book contains abundant illustrations which are clear-cut and well tied in with the text material. One unusual feature is an up-to-date and fairly complete appendix listing business periodicals classified according to subject.

### Plastic Pipe

Although the plastics industry has been experimenting with pipe for the past five years, plastic tubing is just beginning to get a toe hold in the pipe market. According to a special article in the *Wall Street Journal*, the new-type tubing, made primarily from polyethylene, polyvinyl chloride, and tenite, is gaining wide use.

The initial cost of plastic pipe is about twice that for steel, but lower installation expenses and smaller maintenance costs partially make up for the difference. The new-type tubing, which is easy to install because of its lightness (it weighs only one-eighth as much as steel), can be manufactured in longer lengths and needs fewer joints

(Continued on page 9)

# THE DECLINE OF CATTLE PRICES

E. J. WORKING

Professor of Agricultural Economics

The past six months have witnessed one of the greatest declines of beef cattle prices on record. The price decline has been due primarily to an increase in cattle marketings. There is no indication of a decline in the retail demand for beef, and no prospect for a demoralized cattle market.

For several years, cattle have been unusually high in price relative to hogs and corn. This was due partly to a high level of demand for beef, but more especially to small marketings of cattle relative to hogs in a period when farmers and ranchers were building up their cattle breeding herds to meet the high level of demand. In recent months cattle marketings have increased until they are now about in line with the number of cattle being raised. In February, for the first time in several years, the farm price of beef cattle was lower than that of hogs.

Cattle and calf slaughter during the first three months of this year has exceeded that of the corresponding period of 1952 by about 25 percent. If cattle numbers are to be held at the level prevailing at the beginning of this year, total slaughter for the year will apparently have to be increased over that of 1952 by about 20 to 25 percent. The decline of cattle prices which had taken place by March appears to be sufficient for such an increase of slaughter to be taken off the market without any further decline in the general level of cattle prices. It is to be expected, of course, that seasonal changes in the supplies of different kinds and grades of cattle will cause corresponding inverse changes of prices.

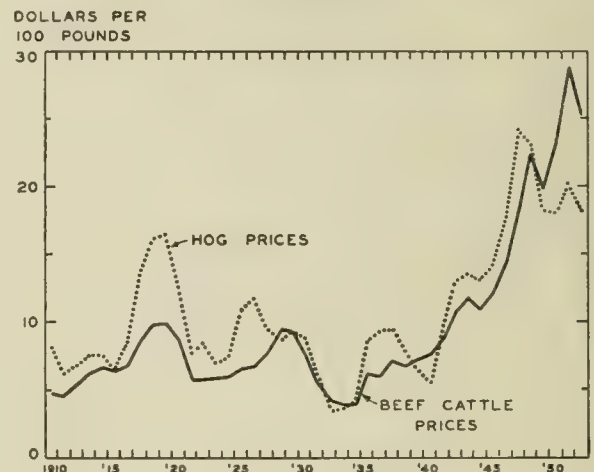
## The Break in Cattle Prices

The extent of the recent decline of cattle prices as compared with declines of earlier periods may be judged from the Chicago price of beef steers. The average for all grades fell from \$32.19 per hundredweight in September, 1952, to \$21.97 in March, 1953. This decline of more than \$10 per hundredweight in a six-month period has been exceeded only once—in 1948-49 when beef steers

dropped from \$35.22 in August to \$22.25 in February. The decline in dollars per hundred, however, is not an adequate measure of severity when the comparison includes periods of widely varying values of money. A better measure is the percentage decline. Since 1900, there have been four occasions when the percentage decline within a six-month period exceeded the 32 percent decline from last September to March. These were in 1902-3, 1920-21, 1937-38, and 1948-49. In both 1920-21 and 1937-38 the declines amounted to 45 percent. As was the case with the recent one, a part of each of the other declines represented merely a normal seasonal change. The average price of steers usually reaches a seasonal high in September and then declines by about 12 percent to a low in February.

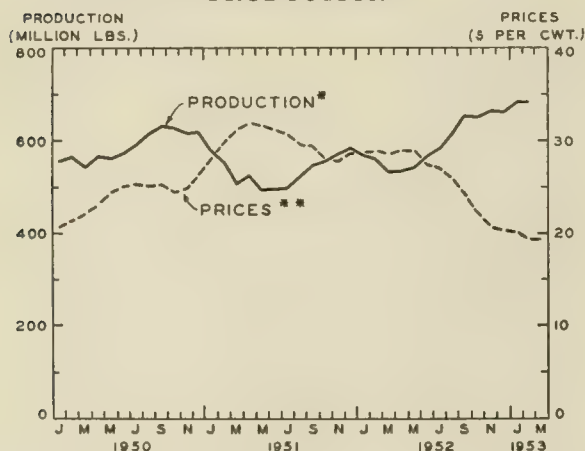
The course, over the past three years, of the average price paid for cattle by slaughterers throughout the nation, and the amount of beef produced from Federally in-

CHART 2. FARM PRICES OF BEEF CATTLE AND HOGS



Source: Bureau of Agricultural Economics.

CHART 1. CATTLE PRICES AND BEEF PRODUCTION



\* Three-month moving average of Federally inspected beef production.

\*\* Average cost of beef slaughtered under Federal inspection.

Source: Bureau of Agricultural Economics.

spected slaughter is shown graphically by Chart 1. It indicates that there has been a fairly close inverse relationship between cattle prices and beef production. When beef production has increased, cattle prices have gone down and vice versa. It clearly suggests that the direct cause of the decline of cattle prices since the midsummer of 1952 has been the increase of cattle slaughter and beef production.

There has been a marked difference between the price movements of different grades of cattle. Feeder steers and the lower grades of slaughter cattle declined earlier than did the higher-quality fed cattle. Prime steers, which averaged \$34.63 in June did not fall below \$34.00 until February, whereas utility steers which averaged \$25.68 in June were below \$18.00 in December. The differences in price movements between grades were partly the usual seasonal differences. Prime steers typically rise in price from May to September and continue through December at about the September level. Utility steers, on the other hand, usually decline from May to November.



## Reversal of the Production Cycle

The causes of the decline stem from the forces which were responsible for cattle prices being so high during the past few years. Cattle prices have been unusually high relative to hogs. This is indicated by Chart 2 which shows the United States average "farm" prices of cattle and hogs annually from 1910 to 1952. It will be seen that in most of the past 40 years the average price of cattle has been lower than that of hogs, whereas for the last four years it has been considerably higher.

The relatively high price of cattle was due in the first instance to an increase in the demand for meat. The demand for pork as well as the demand for beef increased with the higher incomes of recent years, but the production of pork can be, and has been, increased more rapidly than that of beef.

Spurred on by the relatively high prices of beef cattle, farmers and ranchers have been increasing their cattle-breeding herds, and in each of the last four years there has been a marked increase in numbers. This, however, did not at first result in an increase of cattle slaughter. The only way breeding herds can be increased is by marketing fewer cattle than are raised, and since the 1947 peak of slaughter each succeeding year until 1952 saw fewer cattle marketed. This was in spite of the fact that the live weight of farm and ranch production of "beef on the hoof" has increased each year since 1948. Unless the building up of breeding herds is to be continued year after year at a steadily increasing rate it must eventually lead to increased marketings. This is what happened in 1952.

The sharp upturn in marketings during the latter half of 1952 was touched off by the drought of last summer and fall, which reduced the feed available from pastures and ranges and forced reductions of herds in some range areas. Only part of the increase in marketings was immediately reflected in slaughter, for many of the animals were bought as stockers and feeders to be fed out in the Corn Belt and sold for slaughter at a later date.

## Prospects for 1953

The relationship between cattle prices and beef production is indicated by Chart 3. The dot on the lower curve represents the average price (\$22.70) of utility steers at Chicago in 1952 and the estimated total production of beef in the United States (9.6 billion pounds) for

the same year. Other points on the curve indicate the price which might have been expected had meat production been larger or smaller in 1952. Thus, if beef production had been 14 billion pounds we estimate that the price of utility steers would have averaged only \$15 per hundredweight.

The higher curve shows what is estimated to be the most likely relationship between utility steer prices and beef production in 1953. This curve is estimated to be higher than that for 1952 primarily because somewhat reduced supplies of pork are expected to increase the demand for beef. The over-all demand for meat is expected to be maintained at substantially the same level as last year. Of course this estimate of demand conditions may be wrong, but the curve at least gives us a basis for indicating what sort of difference there may be in the price of cattle depending upon the volume of slaughter.

But what of the future of marketings? If pasture and range conditions are good this spring and summer, will cattle slaughter drop back to the 1951 level? That seems most unlikely. Thus far this year the slaughter of both cattle and calves has been running about 25 percent higher than in either 1951 or 1952. With the larger numbers of cows on farms and ranches, the calf crop will be larger than in either of the past two years. Furthermore the lower level of cattle prices may be expected to check the increase of cattle numbers. It might even cause some general liquidation.

Over the past 15 years the calf crop has ranged from 79 to 88 percent of the number of cows two years old and older. This year, because of poor range conditions last fall, the crop seems likely to be about 80 percent, which would result in 37.2 million calves. After allowing for deaths of 4.2 million, there would be left a net of 33 million cattle and calves to be slaughtered if the total number of cattle and calves is to be maintained at the beginning of the year level. With an 85 percent calf crop—the average of the past 15 years—the number for slaughter would be increased to about 35 million. If slaughter is 33 million, the increase over 1952 would be about 20 percent; if 35 million, 25 percent. An increase of 20 percent in beef production over the 1952 level would result in a total beef production of about 11.5 billion pounds, whereas an increase of 25 percent would result in 12.0 billion pounds.

Turning to the chart, and reading from the upper curve we find that such levels of beef production might be expected to result in utility steer prices of around \$18.00 or \$19.00 per hundred. The average March price was \$17.50. The prices of better grade steers would, of course, be higher. How much higher would depend primarily upon the relative supplies of the different grades of cattle.

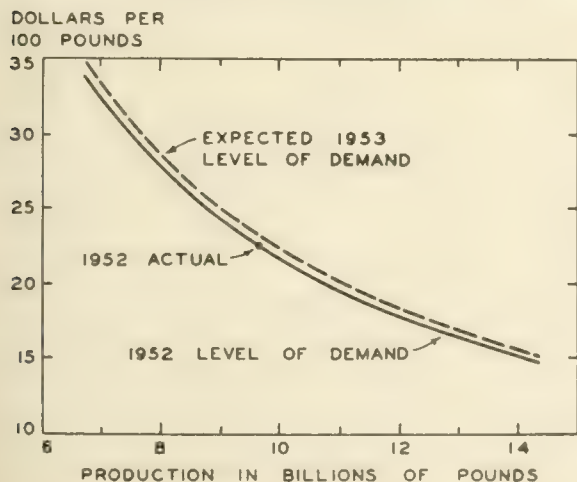
## Business Briefs

(Continued from page 7)

than does steel pipe. Its corrosion-resistant qualities eliminate the need for replacement necessary with steel piping, and a smoother inside surface reduces friction enabling up to 30 percent more volume to pass through. Another advantage is flexibility. The new pipe tends to follow the contour of the floor or ground on which it is laid and can be bent into a 45-degree elbow.

Manufacturers of the new tubing are currently trying to eliminate two serious disadvantages. Plastic pipe most competitive with steel has a temperature limitation of 140 degrees, making its use with hot fluids impossible. Also, it has a relatively low bursting point, ruling it out for high-volume pipeline systems.

CHART 3. RELATION OF STEER PRICES TO BEEF PRODUCTION FOR 1952\*



\* Based on prices of utility steers at Chicago.

# LOCAL ILLINOIS DEVELOPMENTS

Although most Illinois business indicators registered some decline in February from the level established in the preceding month (partly as the result of fewer working days), many were higher than recorded for last February. Electric power production, bank debits, life insurance sales, business loans, and steel production exceeded the levels of February, 1952. Construction contracts awarded rose 25 percent both from the preceding month and on a year-to-year basis. Department store sales in Chicago, unchanged from February, 1952, increased 7 percent above January. Coal production was down, however, as were farm prices received, cash farm income, and petroleum production.

## State Revenues and Expenditures

Total state income in Illinois during the fiscal year 1952 amounted to \$693.4 million, including \$108 million from state insurance contributions and \$3 million from borrowing. Total expenditures were \$641.5 million, including \$70 million spent for state insurance benefits and \$28 million for debt redemption. Although income exceeded expenses in the State by \$52 million in 1952, the figures do not allow for the fact that the use to which particular funds can be put may be restricted. Thus, highway funds come solely from tax receipts on motor fuel sales and motor vehicle licenses.

General revenue rose to \$582 million, almost 10 percent above the 1951 level, whereas general expenditures totaled only \$544 million, or 4 percent more than in the preceding year. The accompanying chart shows general revenue and expenditures on a per capita basis in fiscal 1952. Taxes provided more than three-fourths of the revenue; miscellaneous charges and intergovernmental revenue supplied the remainder. Although education accounted for a larger share of State general expenditure than any other function, the \$16.08 per capita spent on this function

compares very poorly with that of other states. Of 26 states for which data are available, Illinois ranked 23rd in per capita expenditure on education.

## Parity Ratio Rises

The parity ratio in Illinois in March rose one point to 94 as the result of a 1 percent boost in prices received by Illinois farmers. The March livestock and livestock products index remained unchanged from February at 276 percent of the 1910-14 base period, as higher prices for poultry and eggs were offset by lower values for meat animals and dairy products. But the crops index rose 3 percent from the preceding month. Corn and wheat were up 5 cents a bushel, oats increased one cent, and soybeans gained 20 cents during the month. The hog-corn ratio was up 1 percent from mid-February.

Illinois farmers intend to plant 20.6 million acres of field crops this spring, slightly more than last year. Soybeans will be planted on 3.7 million acres, 2 percent more than in 1952, and growers expect to seed 9.1 million acres of corn, also a 2 percent increase over a year ago. The sharpest change in acreage is registered for wheat. Two million acres were planted for harvest this season, an increase of 10 percent from the preceding year.

## Fewer Compensable Work Injuries

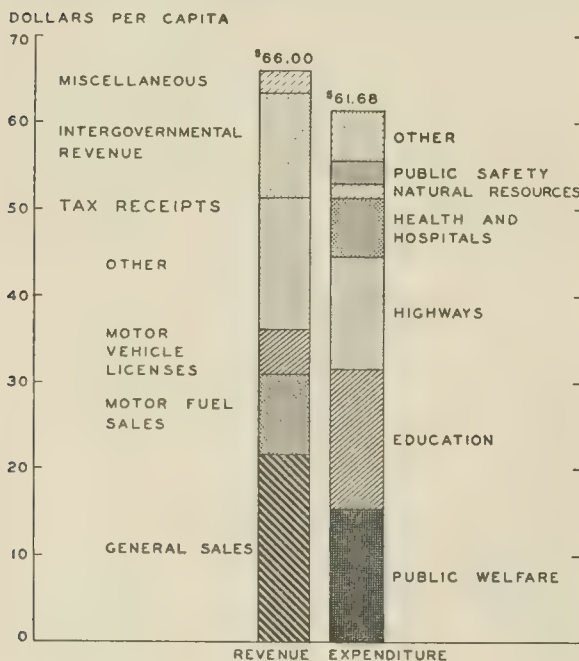
A total of 52,068 compensable work injuries were reported to the Illinois Industrial Commission during 1952 as compared with 53,272 in 1951—a decline of 2.3 percent. Fatalities dropped from 526 in 1951 to 428 in 1952. The decrease is especially significant in view of higher employment levels and longer work schedules in 1952.

Manufacturing establishments reported 51 percent of all injuries, or 21.4 for every 1,000 workers. Four major groups accounted for about 70 percent of all manufacturing injuries. The primary metal industries, which employ 4 percent of the workers covered, accounted for 8 percent of all injuries, whereas machinery other than electrical, which employs 7 percent of all persons covered by the Workmen's Compensation and Occupational Diseases Acts, reported 10 percent of all injuries. Food products reported 8 percent of the injuries although it employed only 5 percent of the workers, and fabricated metal products accounted for 7 percent of all injuries but employed only 4 percent of the workers covered by compensation acts. Among the nonmanufacturing groups, the largest number of injuries, 12 percent, occurred in the contract construction field, which employed only 6 percent of all workers.

## Employment Up Over Year Ago

Noteworthy gains in Illinois employment have taken place in the last twelve months. Though down seasonally from December, nonagricultural industries employed 3.6 percent more persons in January than in the same month a year ago. Manufacturing gains accounted for about two-thirds of the increase, although employment in every industry was higher than in January, 1952, except for mining, food processing, tobacco products, transportation, and textile mill products. Durable goods manufacturers reported an 8.2 percent gain in employment over a year ago. Increases in government employment during the year amounted to 3.9 percent, and in finance, insurance, and real estate, to 3.4 percent. Wholesale and retail trade were up only 1.8 percent.

GENERAL REVENUE AND EXPENDITURE,  
FISCAL 1952



Source: Bureau of the Census.



# COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

February, 1953

		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b>		<b>\$18,260<sup>a</sup></b>	<b>978,676<sup>a</sup></b>	<b>\$530,988<sup>a</sup></b>		<b>\$10,435<sup>a</sup></b>	<b>\$11,555<sup>a</sup></b>
Percentage Change from...	Jan., 1953...	+22.7	-1.4	-22.9	-8	-13.6	-2.5
	Feb., 1952...	+55.3	+3.8	+9.2	-4	+1.8	+0.8
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b>		<b>\$14,143</b>	<b>766,486</b>	<b>\$391,031</b>		<b>\$ 9,493</b>	<b>\$10,040</b>
Percentage Change from...	Jan., 1953...	+16.6	-0.7	-22.8	-8	-13.9	-1.8
	Feb., 1952...	+75.2	+3.5	+7.8	-5	+1.8	+1.4
<b>Aurora</b>		<b>\$ 208</b>	<b>n.a.</b>	<b>\$ 7,913</b>		<b>\$ 41</b>	<b>\$ 93</b>
Percentage Change from...	Jan., 1953...	+51.8		-18.8	-8	-20.4	+7.2
	Feb., 1952...	-33.8		+10.1	-12	+3.3	+24.0
<b>Elgin</b>		<b>\$ 209</b>	<b>n.a.</b>	<b>\$ 5,409</b>		<b>\$ 26</b>	<b>\$ 87</b>
Percentage Change from...	Jan., 1953...	-2.8		-25.1	+8	-6.9	+16.0
	Feb., 1952...	+39.3		+18.3	+1	+3.1	-8.7
<b>Joliet</b>		<b>\$ 147</b>	<b>n.a.</b>	<b>\$11,550</b>		<b>\$ 53</b>	<b>\$ 72</b>
Percentage Change from...	Jan., 1953...	-37.7		-21.4	-4	-13.3	-9.9
	Feb., 1952...	-36.9		+26.1	+6	+13.3	+4.0
<b>Kankakee</b>		<b>\$ 207</b>	<b>n.a.</b>	<b>\$ 4,989</b>		<b>n.a.</b>	<b>\$ 30</b>
Percentage Change from...	Jan., 1953...	+228.6		-28.3	n.a.		-3.5
	Feb., 1952...	+31.0		+14.1			-3.1
<b>Rock Island-Moline</b>		<b>\$1,181</b>	<b>21,261</b>	<b>\$ 9,652</b>		<b>\$ 32<sup>b</sup></b>	<b>\$ 144</b>
Percentage Change from...	Jan., 1953...	+1,035.6	-1.7	-24.0	n.a.	-9.2	-12.5
	Feb., 1952...	+78.1	+15.9	+10.0		-0.3	+8.9
<b>Rockford</b>		<b>\$ 419</b>	<b>34,306</b>	<b>\$18,774</b>		<b>\$ 133</b>	<b>\$ 185</b>
Percentage Change from...	Jan., 1953...	-37.0	+4.3	-8.1	n.a.	-7.6	-6.0
	Feb., 1952...	+24.3	+19.3	+31.3		+10.2	-2.3
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b>		<b>\$ 153</b>	<b>6,620</b>	<b>\$ 4,964</b>		<b>\$ 55</b>	<b>\$ 102</b>
Percentage Change from...	Jan., 1953...	+665.0	-4.4	-28.6	n.a.	-3.7	+6.0
	Feb., 1952...	-8.9	+5.9	+6.6		+19.5	-11.7
<b>Champaign-Urbana</b>		<b>\$ 109</b>	<b>8,860</b>	<b>\$ 6,829</b>		<b>\$ 45</b>	<b>\$ 76</b>
Percentage Change from...	Jan., 1953...	+230.3	-0.8	-26.4	n.a.	-14.3	-2.7
	Feb., 1952...	-44.4	+9.4	+8.9		-4.0	-3.7
<b>Danville</b>		<b>\$ 121</b>	<b>8,350</b>	<b>\$ 5,999</b>		<b>\$ 40</b>	<b>\$ 44</b>
Percentage Change from...	Jan., 1953...	+15.2	-3.6	-24.3	-2	-5.3	-14.9
	Feb., 1952...	+12.0	+8.2	+16.8	+3	+10.0	+1.0
<b>Decatur</b>		<b>\$ 135</b>	<b>21,943</b>	<b>\$ 9,017</b>		<b>\$ 78</b>	<b>\$ 97</b>
Percentage Change from...	Jan., 1953...	+90.1	-2.0	-26.7	-4	-5.1	-0.7
	Feb., 1952...	+3.1	+3.1	+3.9	-8	-1.4	+3.0
<b>Galesburg</b>		<b>\$ 58</b>	<b>6,559</b>	<b>\$ 3,905</b>		<b>n.a.</b>	<b>\$ 30</b>
Percentage Change from...	Jan., 1953...	+205.3	-2.2	-26.8	n.a.		-11.5
	Feb., 1952...	+16.0	+11.8	+12.1			+2.6
<b>Peoria</b>		<b>\$ 374</b>	<b>43,774<sup>c</sup></b>	<b>\$16,461</b>		<b>\$ 180</b>	<b>\$ 187</b>
Percentage Change from...	Jan., 1953...	-28.8	-7.3	-24.9	-2	-7.2	-0.0
	Feb., 1952...	+0.3	-7.4	+6.3	-3	-6.5	-2.7
<b>Quincy</b>		<b>\$ 99</b>	<b>7,448</b>	<b>\$ 4,433</b>		<b>\$ 32</b>	<b>\$ 68</b>
Percentage Change from...	Jan., 1953...	+209.4	-1.3	-28.9	+3	-12.6	-7.0
	Feb., 1952...	-44.1	+2.0	+7.5	+1	-2.5	-4.5
<b>Springfield</b>		<b>\$ 387</b>	<b>24,259<sup>c</sup></b>	<b>\$12,545</b>		<b>\$ 83</b>	<b>\$ 184</b>
Percentage Change from...	Jan., 1953...	+42.8	-8.5	-27.4	n.a.	-14.3	-20.6
	Feb., 1952...	+19.4	-2.0	+6.1		-1.8	-16.4
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b>		<b>\$ 176</b>	<b>12,875</b>	<b>\$ 9,072</b>		<b>\$ 113</b>	<b>\$ 52</b>
Percentage Change from...	Jan., 1953...	+66.0	-5.1	-22.0	n.a.	-17.0	-26.2
	Feb., 1952...	+31.3	+5.6	+15.5		-5.1	-0.3
<b>Alton</b>		<b>\$ 92</b>	<b>10,773</b>	<b>\$ 4,545</b>		<b>\$ 30</b>	<b>\$ 25</b>
Percentage Change from...	Jan., 1953...	+19.5	-8.2	-30.6	n.a.	-9.7	-15.9
	Feb., 1952...	+9.5	+6.8	+12.5		+4.3	-14.6
<b>Belleville</b>		<b>\$ 42</b>	<b>5,164</b>	<b>\$ 3,901</b>		<b>n.a.</b>	<b>\$ 35</b>
Percentage Change from...	Jan., 1953...	-44.0	-11.5	-26.2	n.a.		+6.0
	Feb., 1952...	-53.3	+10.7	+12.7			-5.6

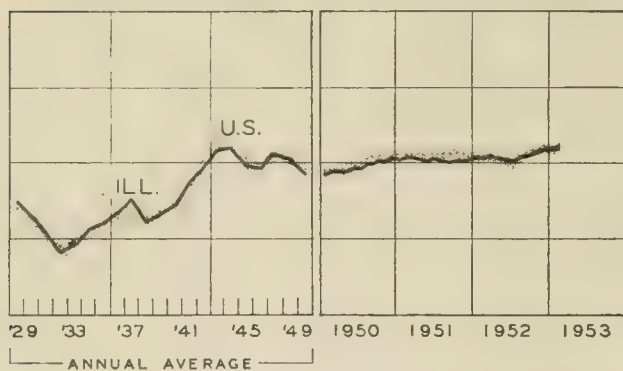
<sup>a</sup> Total for cities listed. <sup>b</sup> Moline only. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.

Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for January, 1953, the most recent available. Comparisons relate to December, 1952, and January, 1952. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Percentages rounded by original sources. <sup>5</sup> Local post office reports.

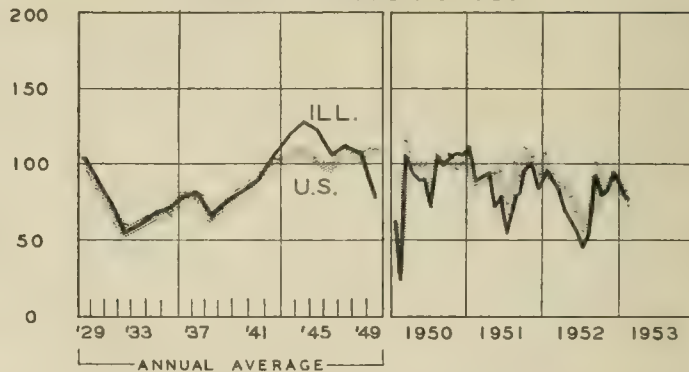
# INDEXES OF BUSINESS ACTIVITY

1947-1949=100

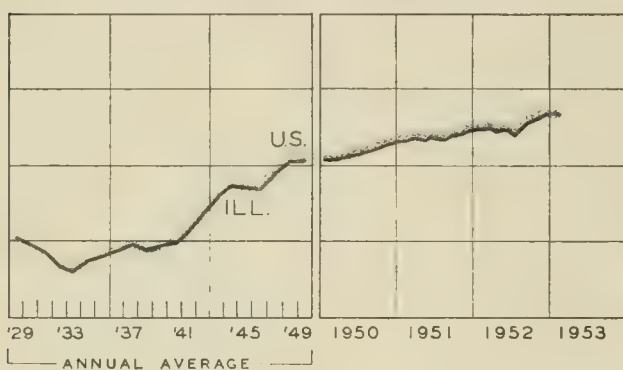
## EMPLOYMENT - MANUFACTURING



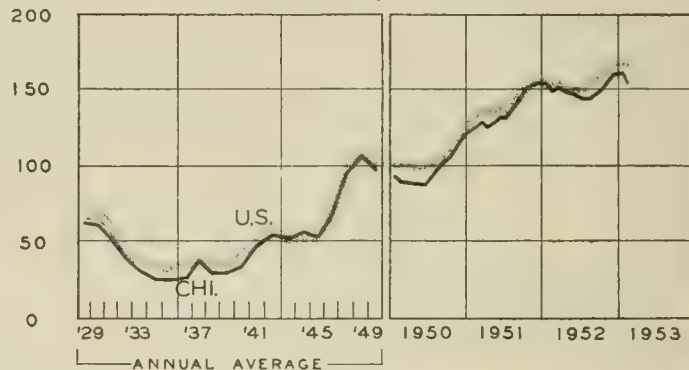
## COAL PRODUCTION



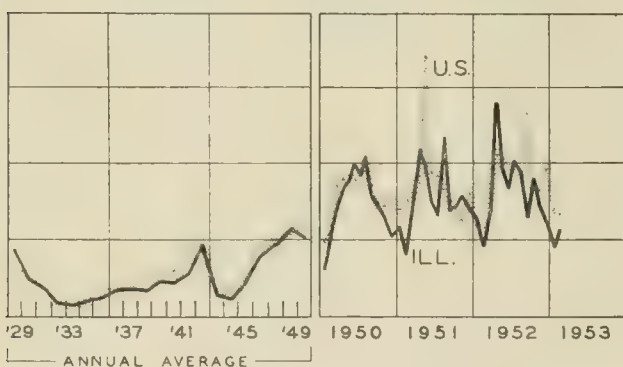
## AVG. WKLY. EARNINGS - MANUFACTURING



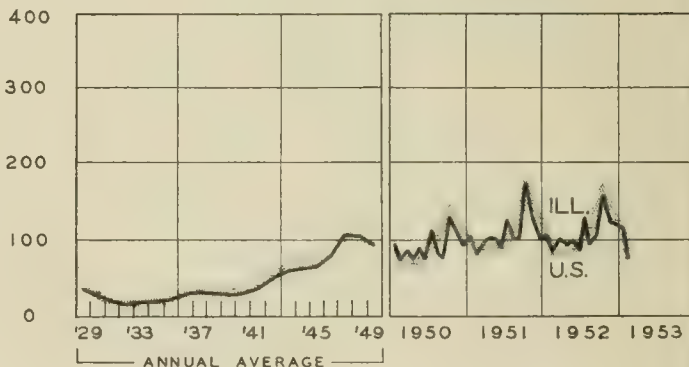
## BUSINESS LOANS



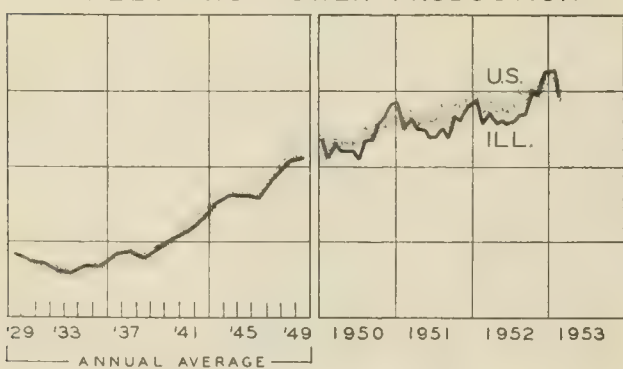
## CONSTRUCTION CONTRACTS AWARDED



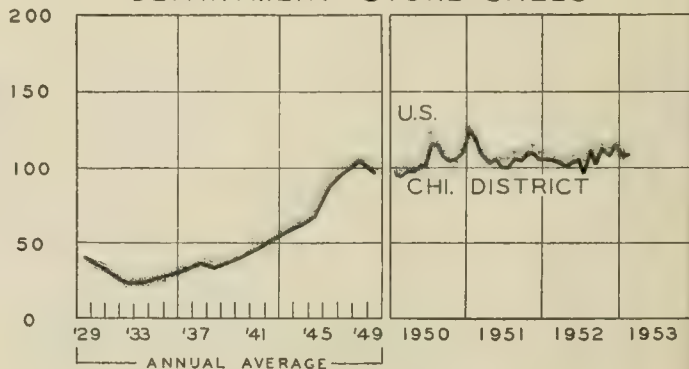
## CASH FARM INCOME



## ELECTRIC POWER PRODUCTION



## DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

## A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

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### HIGHLIGHTS OF BUSINESS IN APRIL

After rising for eight consecutive months, industrial production seemed to be leveling off in April. The Federal Reserve index of industrial production for the month remained about even with the previous month's figure of 242 percent of the 1935-39 average. Automobile output in April exceeded 600,000 cars, with indications that the May figure may rise an additional 7 percent.

Department store sales continued brisk. Though no higher than a year ago on a seasonally unadjusted basis, allowance for the occurrence of Easter one week earlier this year indicates a sales increase of about 4 percent on a year-to-year comparison.

#### Farm Prices Decline

The index of prices received by farmers turned down again in April, dropping 2 percent in the month ended April 15. The drop was caused by lower prices received for milk, cattle, onions, and potatoes, which were offset only in part by higher prices of hogs, lambs, eggs, and rice. Prices paid by farmers were also down, but not as much as prices received. As a result, the parity ratio declined one point to 93, the lowest level since June, 1941.

Wholesale prices registered little change during April, as price declines in the early part of the month, following the Communist peace overtures, were counterbalanced by recovery toward the month's end. Consumers' prices rose slightly during the month ended March 15.

#### Construction Boom Rolls Along

The construction boom showed no sign of slackening in April. Outlays for new construction rose seasonally by 8 percent from the previous month and exceeded the level of last April by 5 percent. Construction activity so far this year has maintained a fairly constant margin over last year's outlays; the margin of increase for the first four months of this year relative to those of 1952 was 6 percent.

As in March, private construction continued to lead building activity. Dollar outlays in this sector were up 5 percent from March and 7 percent from April of last year, with home-building and farm and utility construction registering the largest gains. Public construction was only slightly above the level of April, 1952, though

up sharply from March as expenditures on atomic energy facilities increased and improved weather conditions permitted resumption of road building activities.

#### Interest Rates at 20-Year Peak

The cost of money is going up. Government action to limit credit expansion by following a tight-money policy through Federal Reserve control of member bank funds has raised interest rates to a twenty-year high. The yield on government bonds has been raised to  $3\frac{1}{4}$  percent, and purchasers of 91-day Treasury bills floated in the week ended April 25 were receiving 2.32 percent, the highest rate since the depth of the depression.

Commercial borrowers have also had to pay more for their money. Banks in New York, Chicago, and Philadelphia, hard pressed for funds to meet loan requests, raised the charge on loans to their best customers to  $3\frac{1}{4}$  percent. The rate has not been this high since 1934 and, as many corporation executives may recall with nostalgia, stood at  $1\frac{1}{2}$  percent as recently as November, 1947. Security flotation expenses are also up, a recent utility issue costing the borrower 3.8 percent as against slightly over 2 percent for a comparable issue several months ago.

The main factors accounting for the continuing high demand for money are the recent inventory expansion, continued high capital expenditures, and first quarter income tax liabilities and working capital needs.

#### Inventories at Record High

Business inventories in March were at an all-time high at \$76.6 billion. This represents an increase of \$1.4 billion above the March, 1952, level and on a seasonally adjusted basis is \$200 million more than in the preceding month. The rise was more than accounted for by increased stocks of durable goods, primarily at the retail level, as nondurable goods inventories declined during the month.

The present high level of inventories is not excessive in relation to sales, according to government economists. The ratio of inventories to sales last November, just before the Christmas shopping rush, was 1.6. In March, however, inventories were sufficient to cover only 1.5 months' sales.

Because of budget limitations and increased printing costs, the Bureau is mailing the *Illinois Business Review* without envelopes on an experimental basis. No other changes are planned for the *Review* at this time, since our recent readership survey revealed substantial support for each feature.

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# ILLINOIS BUSINESS REVIEW

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## The Peace Offensive

As the negotiations in Korea draw to a close, reactions appear to be mixed. Since we made no significant concessions, Dulles' view that we have the offensive and that the Russians are really carrying on a "peace defensive" is seemingly confirmed; but the disturbing thought that victory was granted rather than gained persists in the background. Similarly, although the economic situation is little changed, fears of a setback are aggravated; and speeches intended to reassure the public carry the disturbing implication that they would not have been made if the outlook were really secure.

### Implications of the New Russian Policy

Part of the confusion arises from failure to recognize that Russia's policy is not primarily designed to influence us, but rather to sway the rest of the world. The internal advantages alone may be important. No doubt they face serious problems of factional dissension and public dissatisfaction over conditions of oppression and shortage. Such moves as the amnesty for prisoners and the lowering prices represent attempts to reduce economic strain and pacify opposition elements. The display of peaceful intent bolsters support from the mass of the people whose desire for peace runs as deep as that in other lands.

More important, however, are the advantages sought elsewhere. By holding out the prospect to other countries that there is another way, a peaceful way, Russia hopes at least partially to reverse the trend in a world that is being too effectively organized against it. The NATO program has already been slowed. Ratification of the European Defense Community faces strong opposition in Germany and France. If military operations in Indo-China are halted—as they seem to have been after a convincing display of strength—the French will be made more independent by a lowering of need for United States aid. Removing the threat of war may strengthen anti-United States elements in the Italian election. The timing of the policy shift is well calculated with respect to all these critical events.

On the economic side, it may provide a way out of the trade boycott we have so laboriously established. Resentment against the blockade is already high in the West. The need for markets is felt in countries like Britain, Germany, and Japan; and the less industrialized countries that are such important suppliers of strategic and other raw materials are dissatisfied with the instability of ex-

isting markets for their products, as a recent United Nations report fully indicates.

In short, there are various ways in which the new policy might split the West and hamper its defense preparations. An additional hope is that the changed circumstances would bring on a business decline in the United States and hasten the process of "disintegration." A substantial recession in this country would adversely affect our relations with the rest of the Free World to an extent that is hardly calculable.

All these advantages mount up to a potential so great that the new Russian policy will probably be pursued whether or not we receive it in a spirit of conciliation. Unwillingness on our part to make concessions may in fact increase its success. That is why fighting may be brought to a halt even without pressure or concessions from us.

### Nothing to Get Excited About

Does this mean that the situation will be drastically changed? Not necessarily, because our course will not be substantially modified and other countries are not so lacking in vision as to take the bait and swallow it, as the saying goes, hook, line, and sinker.

The position of our allies, those consistent advocates of moderation, has been tremendously strengthened by the fact that the launching of an early war has been made difficult, if not impossible. They, too, are capable of the longer view. Their hopes for a gradual adjustment still rest on maintaining a balance of power in which their own weight represents a significant, even if a relatively limited, element. That they are willing to make concessions cannot be doubted. That they are willing to break ranks and make concessions beyond those deserved is highly improbable.

In speaking of concessions deserved, the thought is that they, like ourselves, base judgments on deeds, not words. The change that has taken place represents a sharp shift in the war of words; but the structure of defense on which they must rely still conforms to the pattern of an armaments race, somewhat more restrained, but basically unchanged.

Recent announcements from Washington indicate that the armaments program is not being significantly reduced—notwithstanding headlines to the effect that the Truman program has been scrapped. There have been two program reviews, one by NATO and one by the new Administration. The first was in the mill before the peace offensive got under way. It aimed, in the words of Churchill, at making it a program for the long pull, not the short jerk; but it appears that Churchill was expressing a desire, not so much to change the structure of Western defense, as to reduce the burden on Britain and others in less fortunate circumstances.

The second review, under the direction of Defense Secretary Wilson, has apparently worked toward economy in fulfilling the present program rather than in changing its over-all magnitude. Some economies are no doubt being effected, but they are not of such an order of magnitude as to be termed substantial.

The bulk of the procurement of the newer, technically advanced products still lies ahead. Minor cuts in new appropriations cannot greatly restrict production of military hard goods in a situation where the carryover of funds previously authorized is about three times the annual rate of current deliveries. There is not likely to be any significant letdown in military spending for a full year at least.

(Continued on page 6)



### WATER—AN UNUSED RESOURCE

Although water is one of the primary requisites for human survival and although water supply, on the basis of bulk, is the world's largest enterprise, it is one of our most inefficiently exploited resources. Only about 5 percent of the atmospheric moisture which passes over Illinois reaches the earth as precipitation. Less than half of this precipitation is usefully consumed, about one-third by crops and one-tenth for industrial and municipal purposes. About one-fourth of the total precipitation is carried out of the State in streams and rivers and the remainder evaporates back into the atmosphere.

Engineers estimate that it is theoretically possible to use nearly all of this stream flow, although it may not be economically feasible under present conditions. With the application of proper re-use techniques, the water resources of Illinois could support ten times its present industry.

#### Types of Water Resources

The two important types of water resources in Illinois are surface water, which is found above ground, and groundwater, which is found underground. The southernmost third of the State is mainly dependent on surface water sources for its supply. The northern third of the State gets its water supply for the most part from wells drilled deep in the bedrock. The Chicago area draws heavily on Lake Michigan water for its municipal supply but depends partly on groundwater for industrial water supplies. The east-central part of the State gets large volumes of water from wells drilled in the glacial drift whereas west-central Illinois uses both rock wells and drift wells to a considerable extent.

The Illinois State Water Survey estimates that about 8 billion gallons of surface water and 250 million gallons of groundwater are used each day by Illinois industry. Of this, two billion are used in manufacturing, almost six billion in steam power plants and about 200 million in mineral processing.

Agriculture is also a user of water resources. There are about 200 irrigation systems in use representing an investment of \$500,000. These systems have a capacity of 100,000 gallons per minute and irrigate 9,000 acres. About 80 percent of the water used is surface water and the remaining 20 percent is groundwater.

#### Surface Water Problems

The greatest problem in regard to surface water is not one of inadequate supply, but rather one of soil conservation. Illinois rivers and water reservoirs are becoming depositories of alarming quantities of topsoil. Most of the sediment reaching Illinois streams comes from comparatively level or gently sloping farmlands which are used for production of intertilled crops, in alternate rows, such as corn and soybeans. Land used for these crops is kept bare by continual tillage and erodes easily. Consequently, Illinois surface water is made less suitable for industrial use because of the high proportion of sediment suspended

in the water, much of the rich topsoil is being lost from our farms, and our reservoirs are becoming filled with sediment. It is estimated that total erosion in the Illinois valley amounts to almost 3 billion cubic feet per year, of which 175 million cubic feet reaches the Illinois river.

#### Groundwater

Although for the most part our groundwater resources have been relatively unaffected by human activity, shortages are appearing at places where there are heavy concentrations of population. Problems have developed in Chicago, Joliet, Rock Island, Peoria, East St. Louis, and Champaign-Urbana. Water levels have receded more rapidly in the Joliet area than anywhere else in Illinois. It is estimated that in Chicago, where industry depends heavily on groundwater sources, water levels in deep wells are now as much as 500 feet lower than they once were. Although these heavily pumped areas represent less than 5 percent of the area of Illinois, they account for more than half of the State's population and receding water levels in these areas could seriously affect the industrial development of the entire State.

A second cause of falling groundwater levels has been the cultivation of land which was once covered with prairie grasses. As a result of cultivation, infiltration rates have been somewhat reduced. It is felt that this influence has been relatively minor in comparison with the effects of large population concentration.

#### Water Situation Being Studied

Although data concerning groundwater resources, which supply 10 percent of our consumption, are fairly adequate, our knowledge of surface water resources is far from satisfactory. Rain-gauging techniques and equipment, basic to research in this field, do not provide the accuracy desired by engineers and meteorologists. Experiments are being made by the State Water Survey, however, with radar as a means of measuring rainfall. So far, indications are that this new technique has real possibilities for measuring precipitation over large areas.

Another interesting development is the use of surface water sources to recharge groundwater formations. Surface water is piped into a large pit from which it filters into the groundwater formations. Groundwater recharge has been used with some success at the Water Survey's pilot station at Peoria. The recharging of groundwater formations is superior to abandoning groundwater sources because at certain times of the year the river water is warm and turbid and unsatisfactory for industrial and municipal use. The groundwater formations are recharged only when temperature and turbidity are satisfactory and the water can be used with a minimum of processing.

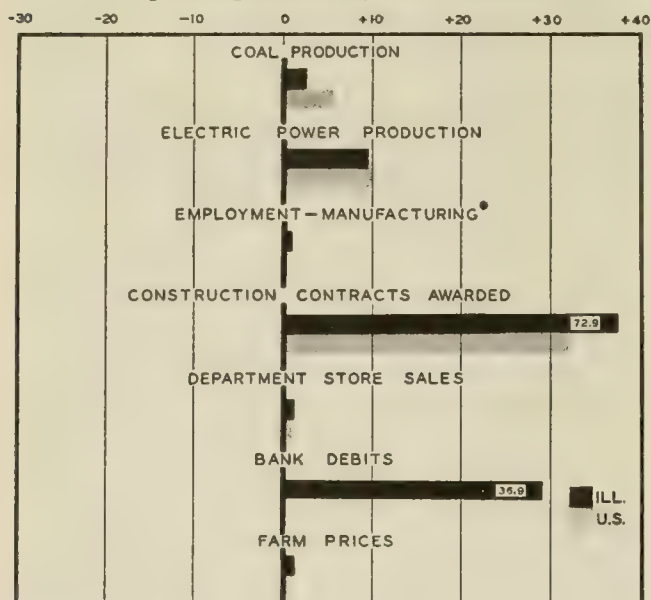
While water resource problems are almost sure to become more serious as the State's industry and population grow, our knowledge of water resources is growing daily. Experts tell us that with sufficient attention, all of the State's water problems can be solved.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes February, 1953, to March, 1953



\* January, 1953, to February, 1953.

## ILLINOIS BUSINESS INDEXES

Item	March 1953 (1947-49 = 100)	Percentage Change from	
		Feb. 1953	March 1952
Electric power <sup>1</sup> .....	161.3	+ 9.5	+19.1
Coal production <sup>2</sup> .....	79.6	+ 2.4	- 4.2
Employment—manufacturing <sup>3</sup> .....	112.1	+ 0.9 <sup>a</sup>	+ 6.6 <sup>b</sup>
Payrolls—manufacturing.....	n.a.		
Dept. store sales in Chicago <sup>4</sup> .....	105.0 <sup>c</sup>	+ 1.0	+ 7.1
Consumer prices in Chicago <sup>5</sup> .....	113.8	- 0.1	+ 0.5
Construction contracts awarded <sup>6</sup> .....	195.3	+72.9	+42.6
Bank debits <sup>7</sup> .....	163.4	+36.9	+16.0
Farm prices <sup>8</sup> .....	102.8	+ 1.1	- 9.3
Life insurance sales (ordinary) <sup>9</sup> .....	165.4	+24.7	+28.4
Petroleum production <sup>10</sup> .....	93.8	+ 9.8	+ 2.6

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.  
<sup>a</sup> January, 1953, to February, 1953. <sup>b</sup> February, 1952, to February, 1953. <sup>c</sup> Seasonally adjusted. n.a. Not available.

## UNITED STATES MONTHLY INDEXES

Item	March 1953	Percentage Change from	
		Feb. 1953	March 1952
Personal income <sup>1</sup> .....	282.5 <sup>a</sup>	+ 0.6	+ 7.9
Manufacturing <sup>1</sup> .....			
Sales.....	305.1 <sup>a</sup>	+ 0.3	+14.9
Inventories.....	43.8 <sup>a,b</sup>	- 0.2	+ 1.4
New construction activity <sup>1</sup> .....			
Private residential.....	10.3	+12.5	+ 7.1
Private nonresidential.....	10.5	+ 7.3	+ 7.2
Total public.....	8.7	+12.1	+ 1.4
Foreign trade <sup>1</sup> .....			
Merchandise exports.....	16.5	+15.2	- 4.8
Merchandise imports.....	12.0	+17.3	+ 4.1
Excess of exports.....	4.5	+10.0	-22.7
Consumer credit outstanding <sup>2</sup> .....			
Total credit.....	25.6 <sup>b</sup>	+ 1.7	+24.6
Installment credit.....	19.3 <sup>b</sup>	+ 2.2	+32.6
Business loans <sup>2</sup> .....	23.3 <sup>b</sup>	+ 2.8	+ 9.2
Cash farm income <sup>3</sup> .....	24.0	+ 6.8	- 3.8
Indexes (1947-49 = 100)			
Industrial production <sup>2</sup> .....			
Combined index.....	131 <sup>a</sup>	+ 0.8	+ 9.5
Durable manufactures.....	151 <sup>a</sup>	+ 1.6	+14.7
Nondurable manufactures.....	116 <sup>a</sup>	+ 1.0	+ 6.4
Minerals.....	110 <sup>a</sup>	- 1.8	- 2.4
Manufacturing employment <sup>4</sup> .....			
Production workers.....	112 <sup>a</sup>	+ 0.5	+ 6.6
Factory worker earnings <sup>4</sup> .....			
Average hours worked.....	n.a.		
Average hourly earnings.....	n.a.		
Average weekly earnings.....	n.a.		
Construction contracts awarded <sup>5</sup> .....	176	+31.9	+ 2.0
Department store sales <sup>2</sup> .....	113 <sup>a</sup>	+ 1.8	+ 7.6
Consumers' price index <sup>4</sup> .....	114	+ 0.2	+ 1.1
Wholesale prices <sup>4</sup> .....			
All commodities.....	110	+ 0.5	- 2.0
Farm products.....	100	+ 2.1	- 7.6
Foods.....	105	- 0.2	- 3.8
Other.....	113	+ 0.3	- 0.4
Farm prices <sup>3</sup> .....			
Received by farmers.....	98	+ 0.4	- 8.3
Paid by farmers.....	107	+ 0.8	- 3.3
Parity ratio.....	94 <sup>c</sup>	0.0	- 6.0

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1953					1952
	April 25	April 18	April 11	April 4	March 28	April 26
Production:						
Bituminous coal (daily avg.).....thous. of short tons.....	1,508	1,446	1,410	1,334	1,376	1,625
Electric power by utilities.....mil. of kw-hr.....	8,016	8,113	8,001	8,019	8,075	7,135
Motor vehicles (Wards).....number in thous.....	182.6	150.6	164.9	160.7	170.9	124.8
Petroleum (daily avg.).....thous. bbl.....	6,184	6,185	6,171	6,243	6,384	6,277
Steel.....1947-49 = 100.....	141.7	138.7	138.8	136.3	144.7	129.9
Freight carloadings.....thous. of cars.....	780	752	721	705	715	779
Department store sales.....1947-49 = 100.....	104	105	97	118	112	105
Commodity prices, wholesale:						
All commodities.....1947-49 = 100.....	109.7	109.5	109.6	109.8	110.0	111.8
Other than farm products and foods.....1947-49 = 100.....	113.2	113.3	113.2	113.3	113.4	113.3
22 commodities.....1947-49 = 100.....	87.8	87.8	88.2	89.5	90.3	97.4
Finance:						
Business loans.....mil. of dol.....	23,156	23,287	23,297	23,269	23,337	20,872
Failures, industrial and commercial.....number.....	159	165	140	171	188	168

Source: Survey of Current Business, Weekly Supplements.



# RECENT ECONOMIC CHANGES

## Personal Income Rises

Personal income advanced \$1.5 billion in March to an annual rate of \$282.5 billion. Private industry wage and salary disbursements accounted for most of the increase, rising \$1.3 billion to \$160 billion. Manufacturing payrolls—at an annual rate of \$69 billion—contributed almost \$1 billion of this gain, as both durable and non-durable goods factory payrolls increased during the month. Farm income, in contrast to the declines of recent months, was unchanged from the February level of slightly under \$20.0 billion, reflecting stability of farm prices during the month.

For the first quarter of 1953, personal income (at an annual rate) amounted to \$281 billion, up 7 percent from the first quarter of 1952.

## Growth Trends in the Economy

From 1940 to 1952 the output of goods and services in the United States rose at an average rate of 5 percent a year, according to a recent study by the Department of Commerce. Industrial and scientific research have developed new products and improved old, and demand for most types of goods and services has continued to strengthen with expansion of population and purchasing power. Nevertheless, many industries have grown at a substantially faster rate than gross national product, whereas the rate of growth of other industries has tended to level off, and still others have shown declining trends.

The average annual rates of change in the production of a number of selected industries during this twelve-year period are shown in the accompanying chart. The fastest growing industries are generally those that have been in production only in relatively recent years, and are still in an initial period of rapid growth. This is true of plastics, clothes dryers, frozen foods, and especially of television. Their production was practically zero in 1940 and has therefore registered a phenomenal average

annual rate of growth during this period. Among the fast growing group, however, are some of the more established industries which continued to expand during the 1940's. Examples are glass containers, telephone service, motor truck transportation, and aluminum. Examples of industries whose output has declined during the period are anthracite coal, steam locomotives, and silk.

## Corporate Working Capital Advances

Corporate net working capital continued to increase during 1952, and at the end of the year amounted to \$86.5 billion, \$4.0 billion higher than at the end of 1951. Current assets of corporations moved up \$9.0 billion to \$183.4 billion; current liabilities advanced by \$5.0 billion to \$97.0 billion.

The rise in assets during 1952 was almost entirely confined to a \$7.6 billion increase in accounts receivable. This was in contrast with 1951, when a \$10.0 billion advance in inventories dominated the change in current assets. On the liabilities side, a \$6.0 billion increase in accounts payable accounted for most of the rise. Federal income tax liabilities declined \$2.9 billion, reflecting the decline in profits and the lower incidence of the excess profits tax.

During 1952, manufacturing accounted for about three-fourths of the increase in corporate net working capital with trade firms accounting for most of the remainder. Mining and public utilities were the only groups in which declines occurred.

## Liquid Saving at Postwar High

Liquid saving by individuals totaled \$14.6 billion in 1952, the highest for any year since the war, and \$2.8 billion above 1951, the previous postwar peak. During the past two years savings have been going more into liquid forms than in 1947-50, whereas the proportion invested in new homes and other durable goods has declined.

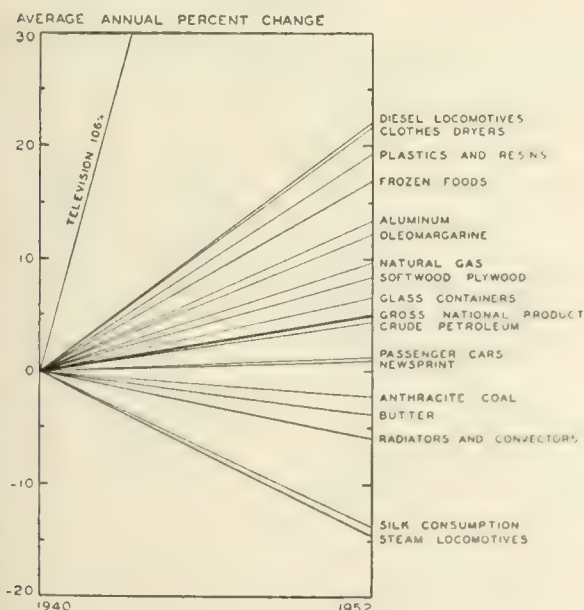
Liquid saving in 1952 was characterized by a sharp rise in insurance, time and savings deposits in banks, and shares in savings and loan associations. Individuals increased their equity in insurance, the largest component of liquid saving, by \$9.5 billion, compared with a rise of \$8.1 billion in 1951. Holdings of cash and bank deposits increased by \$6.7 billion, with about two-thirds of the rise concentrated in time and savings deposits. Individuals also invested a record \$3.1 billion in shares of savings and loan associations. In addition, corporate securities purchased by individuals, which includes corporate pension funds, amounted to \$3.9 billion, more than in any year since 1929.

## Foreign Aid in 1952

In 1952 United States aid to foreign nations totaled \$5.6 billion, 10 percent more than in 1951. During the course of the year, marked changes occurred in the composition of foreign aid, as military aid moved up from less than a third of the 1951 total to almost half the total in 1952. Economic aid fell 22 percent from \$3.6 billion in 1951 to \$2.8 billion last year. Although grants continued to account for the dominant share of gross foreign aid in 1952, more aid was extended on a credit basis than in the previous year.

Western Europe continued as the major beneficiary of United States aid and received \$4.2 billion, 76 percent of total foreign aid, compared with \$3.7 billion a

**GROWTH TRENDS OF SELECTED INDUSTRIES, 1940-1952**



Source: U. S. Department of Commerce.

year earlier. Despite this advance only three European countries—France, the United Kingdom, and Turkey—received more aid last year than in 1951. Aid to France totaled \$496 million, \$20 million more than in 1951; Great Britain received \$492 million last year compared with \$236 million in 1951; and aid to Turkey advanced \$5 million to \$68 million. Defense shipments to Europe as a whole totaled \$2.3 billion, double the 1951 figure, and much more than offset a \$600 million decline in economic aid.

## Federal Construction Rises in 1952

The value of contracts awarded for new construction financed wholly or in part with Federal funds rose 5 percent in 1952 to \$4.4 billion. This figure is almost 60 percent of the wartime high reached in 1942. As shown by the accompanying chart, there has been a steady rise in Federal contract awards throughout the postwar years, with the largest advances occurring in 1950 and 1951 following the outbreak of hostilities in Korea. In 1952 contract awards leveled off somewhat as some nondefense work was curtailed and a number of defense programs neared completion.

Contract awards for construction of plant and buildings totaled \$2.4 billion in 1952, and continued to account for over half of all Federally financed contracts let. Mainly because of further expansion by the Atomic Energy Commission, contract awards for Federally owned industrial plant moved up 37 percent to \$1.2 billion. Other large increases occurred in contracts for warehouses (mainly military), which more than tripled in contract value last year; troop housing, up a fourth; and educational buildings, up 41 percent to a record \$85 million.

Awards for Federally aided transportation facilities (highways and airfields) declined 2 percent in 1952 to \$1.1 billion, as reduced airfield construction more than offset a 17 percent advance in highway building.

Contract awards for other construction were up 8 percent to almost \$1.0 billion, chiefly on the strength of an 84 percent rise in electrification. This advance resulted mainly from contracts let in December at the Tennessee Valley Authority for projects planned to meet

increased power requirements for atomic energy facilities, aluminum plants, and other defense-related industry in the area.

## Dividend Payments Rise in First Quarter

Cash dividend payments by corporations issuing public reports amounted to \$2.0 billion in the first quarter of 1953, 5 percent above the first quarter a year ago. Manufacturing, which accounted for more than half of the total, reported a small advance, 1.5 percent, whereas non-manufacturing disbursements expanded by 9 percent.

In the manufacturing sector, all industries except textiles either maintained first quarter 1952 disbursements or reported moderate increases. Dividend payments by the textile and leather group declined 11 percent.

In the nonmanufacturing sector, disbursements were some \$75 million above the first quarter a year ago. All nonmanufacturing industries except mining increased dividends in the first quarter of 1953 as compared with the same period of 1952. Payments by trade firms increased only slightly, but disbursements by the finance group, railroads, utilities, and communication companies advanced by 10 to 15 percent, partly because of share expansion.

## Federal Tax Receipts Reach Record

Higher tax rates and continued prosperity made Federal tax receipts in 1952 the largest in history. According to a recent report by the Bureau of Internal Revenue, tax receipts last year amounted to \$68.5 billion, up \$12.5 billion from 1951. Personal income and employment taxes advanced 20 percent to \$36 billion, and accounted for almost half of the increase. Corporate and excess profits taxes rose from \$16.5 billion in 1951 to \$22 billion last year. Excise taxes such as those on tobacco, alcohol, telephone service, and theater tickets were up \$1 billion to \$22 billion.

## The Peace Offensive

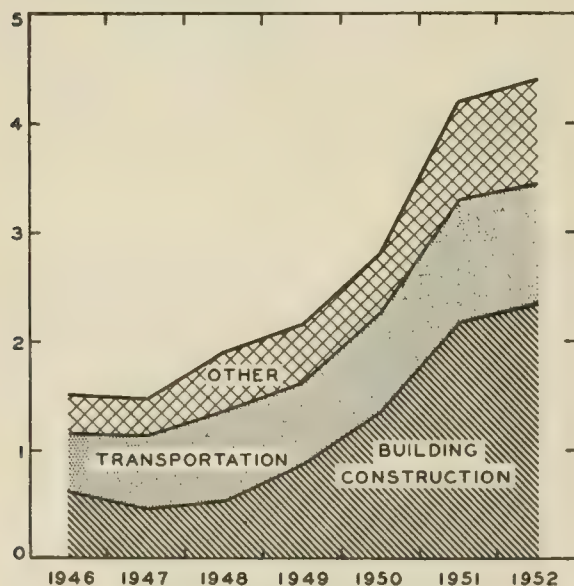
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In recognition of the sensitive international situation, the Administration has sent to Congress a foreign aid program that fully maintains the recent level. The Administration has also taken a strong stand against the Simpson Bill, a measure to place further restrictions on imports, on the basis that nothing could be more damaging to our position abroad.

There remains the question of a possible business decline originating in the private sector of the economy. At the moment, all lines of activity are strong, and most of them promise to continue so throughout the year. There may be some letdown, if for no other reason than that the automobile industry is producing cars, and selling them to consumers on credit, at a rate that cannot continue indefinitely. However, fears that magnify the slightest decline into a disaster are unfounded; the economy doesn't have to operate under forced draft and keep unemployment below a reasonable full employment level in order to maintain prosperity.

By this time next year, business may be running a little lower and the peace offensive may have made some minor successes at our expense. It is a prospect that can be faced calmly, with no need for the self-tortures of undue excitement and worry. In its broad outlines the situation will probably still look much as it does now.

**FEDERALLY FINANCED CONSTRUCTION**  
BILLIONS OF DOLLARS



Source: U. S. Department of Labor.

VLB



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Mothproof Woolens

A solution for mothproofing washable woolens has been developed by Bonded Chemicals of Lima, Ohio. By adding two teaspoons of the insecticide per pound of dry wool to the soapy wash water or the rinse water containing blankets, sweaters, or other woolens, the material is not only cleaned but also protected, if stored, against the feeding of the larvae of both moths and carpet beetles for more than a year. "Bonded EQ-53," the new mothproofing product, can be used in any type washing machine or in a wash basin or tub. It is safe to use if the normal precautions necessary in handling any insecticide are observed. "Bonded EQ-53" is available in half-pints, pints, quarts, and gallons through department, drug, grocery, hardware, and dime stores, or directly from Bonded Chemicals.

### Farm Size Increases

Although the average acreage per farm in the nation increased from 148 acres in 1920 to 215 acres in 1950 (45 percent), farm size varied widely in different sections of the country, according to the Department of Agriculture. In 1950 the average farm in the Mountain States consisted of 1,284 acres whereas the Appalachian region reported only 84 acres. The chart below shows that average acreage per farm has increased in every section of the country between 1920 and 1950 with the exception of the Appalachian States where acreage has remained unchanged. During the thirty-year period, farm size increased most in the Mountain States (up 170 percent) and in the South (up 66 percent in the Southern Plain States and 59 percent in the Southeastern States).

The size of American farms is increasing in most states because of mergers; consequently the number of farms dropped from 6.4 million in 1920 to 5.4 million in 1950, or 17 percent. All of the decline has occurred among farms having from 10 to 179 acres. With the mechanization of agriculture, most farms are accomplishing the

same amount of work with less labor and in a shorter period of time. Concomitantly, the decentralization of industry and industrial expansion have provided profitable off-the-farm work. As a result, farmers are either selling all or most of their lands and accepting other employment (keeping only a few acres for themselves), or they are buying or renting more land to utilize their investment in tractors and other machinery. As a result, farms under 10 acres have increased 68 percent during the thirty-year period and farms consisting of 500 or more acres have increased 40 percent.

### Improved Enamel

An improved enamel that withstands scuffing, grease, boiling liquids, hard soaps, and repeated scrubbing has been marketed by Sapolin Paints, Inc., 229 East 42nd Street, New York, N.Y. The new product, which does not contain lead pigments or toxic ingredients, will dry to a hard gloss finish in four hours with no streaks, according to the manufacturer. Although it is especially recommended for children's furniture and toys, it can also be applied to any surface on which regular enamels are used — unpainted furniture, kitchen cabinets, chairs, and tables. It is particularly effective on outdoor furniture, for its colors are nonfading and weather resistant. The quick-drying enamel comes in 18 decorator colors and sells for \$2.26 a quart.

### Successful Organization

"Building and Maintaining a Successful Organization," an article by Bruce Payne appearing in the April, 1953, issue of *The Controller*, discusses the organization of existing companies to meet the changing problems of today's business. The author contends that a thorough survey of the firm's objectives and its personnel is basic to the building and maintaining of a successful organization. As a result of such a survey, the responsibilities of each executive as well as of every department will be

clearly defined, and overworked executives will be relieved of many duties by delegating nonmanagerial jobs to lesser men. The article relates numerous examples from business experience and gives additional suggestions, some of which are a training course for executives designed to acquaint them with the extent of their own responsibilities as well as the duties of fellow executives; an efficient communication system among management personnel which stimulates frequent exchange of ideas; and an incentive program for executives based on performance standards. The author states that the continuance of a successful company depends upon the hiring and training of capable junior executives and on periodic, complete organizational surveys.

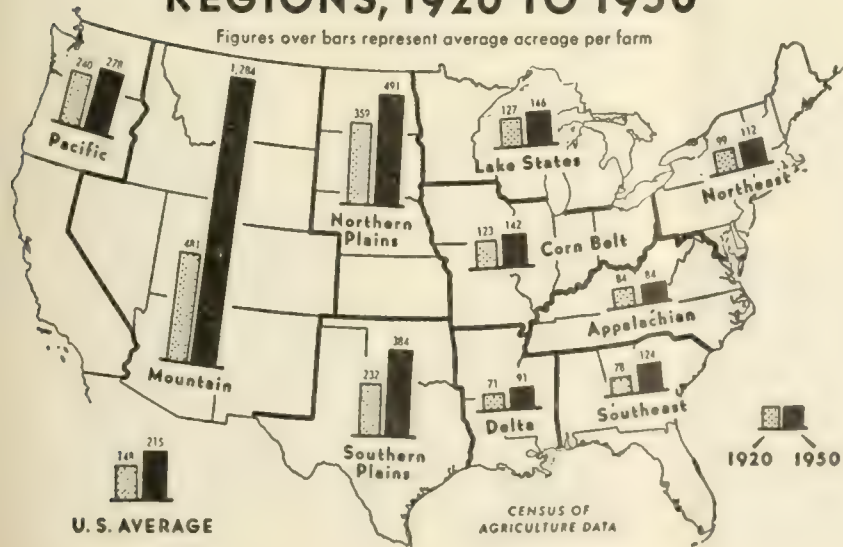
### Causes of Death

The death rate among policyholders of United States life insurance com-

(Continued on page 9)

## CHANGES IN FARM SIZE, BY REGIONS, 1920 TO 1950

Figures over bars represent average acreage per farm



# NEW DIMENSIONS OF TELEVISION

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Television is entering a new era, an era which will see the new medium spreading out to the grass roots of America, riding a wave of mounting revenue, and adjusting to lower cost methods of operation. A brief look at what is happening today shows that this new phase of the industry's development is well under way.

## Growth of the Industry

In 194 cities new TV stations are now being constructed or are in their first few months of operation. Within the next two years another 250 stations will start broadcasting, as evidenced by applications now on file with the Federal Communications Commission. It appears then that between 1952 and 1955 the coverage of television broadcasting will expand from 108 stations in 63 markets including 47 percent of the nation's households to approximately 550 stations in 300 markets including 65 percent of the households. Allowing for the range of television signals, which generally reach out beyond standard market boundaries, it is conceivable that by 1955 television service will be available to 85 percent of the people in the United States.

The current boom in new station construction was touched off in July, 1952, when the FCC lifted the three-and-a-half-year "freeze" and resumed granting construction permits. To provide a truly nation-wide competitive TV service the Commission added 70 UHF channels (between 470 and 890 megacycles) to the 12 VHF channels (between 54 and 216 megacycles) then in use, and adopted an allocation plan making more than 2,000 channel assignments to nearly 3,000 communities throughout the United States and its territories. Thus, the technical framework exists which will permit a TV station in nearly every community having a population of 5,000 or more.

In Illinois the Commission has assigned channels for 57 commercial stations in 36 cities. Nine channels are assigned to Chicago; four each to Rock Island-Moline and Champaign-Urbana; three to Peoria; two each to Rockford, Decatur, Springfield, Centralia, and Quincy; and one each to 27 other cities. In addition to these, seven channels are assigned for noncommercial educational facilities.

Prior to this year there were only five stations on the air in Illinois, four in Chicago and one in Rock Island-Moline. New stations are now operating in Peoria and Rockford. Before the year ends, stations in Belleville, Bloomington, Champaign-Urbana, Decatur, and Springfield will probably start broadcasting. This will provide a total of 14 or 15 stations in nine cities, which represents only about one-fourth of the allocation for Illinois.

## Revenues Based on Public Demand

How many of the small markets will be able to support a station remains to be seen. Few, if any, can support the high-cost operations we see today, because advertising cannot foot the bill in small markets. However, cultivation of the top 200 markets is moving full speed ahead.

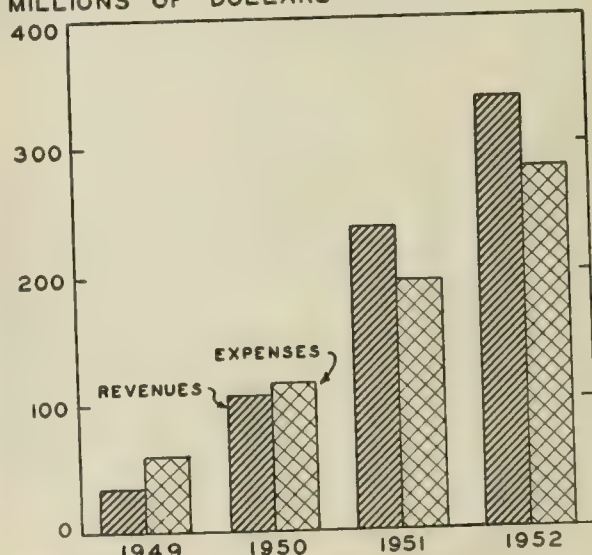
The reason for the rush to get into television is this simple fact: Television has become a highly profitable business. A license to operate a TV station is no longer, as many in the industry expressed it only three or four years ago, "a license to lose money." Many of the new stations now going on the air break even or show a profit

almost from the start, in contrast to the hardy pioneers who learned the red-ink way. In 1949, for instance, 98 TV stations and networks lost more than \$25,000,000. The FCC in a preliminary report estimates TV broadcasting showed a net income in 1952 of \$54,500,000 before Federal income taxes, an increase of 31 percent over 1951. This growth in earnings was registered by 108 stations and four networks which were in operation both years. Including 14 stations which reported losses, average per station income in 1952 was \$564,000 on revenues of \$1,802,000. In other words, the average station's net income before Federal taxes was more than 30 percent of sales.

The industry's revenues from sale of time, talent, and program material to advertisers in 1952 spurted to \$336.3 million in a 43 percent increase over 1951's receipts of \$235.7 million (see chart).

This growth in revenues is related to the demand for television by the American people. By the end of 1947, the first year that receivers were produced in quantity, the public owned 200,000 sets. As of January 1, 1953, some seven years after the birth of commercial television, there were 21,140,000 sets in use. As Frank Stanton, president of CBS, recently stated, "in terms of its acceptance by the American people as an essential part of the equipment of modern life, television has outstripped any other technological development in our history. It took the refrigerator 31 years to achieve this number of units in use; it took the automobile 30 years, and it took radio 13 years before it reached the figure of 21,000,000 sets in use. In some of our major cities there are more homes with television sets than with telephones—and in Chicago, there are more homes with television sets than with bathtubs. And what makes this amazing record of set ownership doubly impressive is that it was achieved during a period when television signals were potentially accessible to only 50 percent of the population—when the industry had one hand tied behind its back."

TELEVISION REVENUES AND EXPENSES  
MILLIONS OF DOLLARS



Source: Federal Communications Commission.



## Estimating New Station Prospects

How much revenue from the sale of time to advertisers can the new or prospective television station expect? Obviously, revenues are directly related to the number of receiving sets reached by the station's signal. By estimating the number of sets which will be reached and multiplying this figure by the average revenue per set experienced by existing TV stations, the new or prospective station can roughly estimate its future revenue.

Set ownership expressed as a percentage of total households in established television markets has grown as follows: first year, 18 percent; second year, 37 percent; third year, 42 percent; fourth year, 53 percent; and fifth year, 62 percent.

This experience should be adjusted to allow for the fact that during this five-year period the entire industry, including set manufacturing and program production, was in its infancy. Better sets at lower prices and improved popular programs should hasten set sales in new television markets as follows: first year, 25 percent; second year, 50 percent; third year, 75 percent; and fourth year, 80 percent.

As reported by the FCC, the average station operating the full year during 1951 experienced revenues of \$6.28 per set. A classification of markets by the number of stations in each market shows how competition reduces revenue per set per station.

<i>Number of stations in market</i>	<i>Number of markets</i>	<i>Median revenue per set per station</i>
1	40	\$9.82
2	11	7.00
3	8	4.38
4	2	3.00
7	2	1.75

The monopoly position enjoyed by stations in many major market areas will soon cease to exist. We can expect their revenue per set to decline as competition grows, as is indicated by the figures given above.

Applying these experience records, the new UHF station being constructed in Decatur, Illinois, might estimate its revenues as follows: Within a 45-mile radius, the normal coverage for such a station, there are about 165,000 households. By 1955 there will be television sets in approximately 50 percent of these homes — 82,500 sets. Assuming revenue per set at \$4.00, and allowing for some competition from stations located in Springfield and Champaign, the new Decatur station could expect to gross \$330,000 in its second year. Similar projections for 1957 would forecast revenues at \$528,000. If the number of households in the area increased, revenues would be correspondingly larger.

Most new stations will have to scale operating expenses much lower than their predecessors did. The average station in 1952 spent \$1,238,000. Even in markets where population was less than 250,000, operating expenses averaged \$429,000. However, at this early stage of the industry's development one would hardly expect these figures to represent standard costs. Evidence that they have failed to impress would-be telecasters can be found in applications for new stations filed with the FCC. Some applicants have estimated first-year expenses as low as \$90,000. Most applicants appear to be planning to spend between \$150,000 and \$250,000.

With existing technology and currently accepted standards of programming it seems reasonable, therefore, to assume a break-even point for many new stations at \$200,000. To operate in the black by the third year would require a service area including about 50,000 sets, 65,000 households, or a population of about 220,000.

## How Operating Results May Be Improved

Obviously, these projections are rough, but they serve to indicate the need for lower cost methods of operation before advertising will be able to support television stations in many of the smaller communities to which channels are now assigned. Anticipating this need, new techniques and equipment for reducing costs are rapidly being developed. Paralleling the expansion of telecasting facilities is the rapid growth in production of filmed TV shows. By printing relatively few film copies of a show and shuttling them from station to station the cost of good quality entertainment will be spread over many markets. Even the cost of recording and duplicating a show stands a good chance of being cut by a magnetic recording device which records picture and sound on tape, thus eliminating the photographic process of reproduction. Other electronic innovations which permit substitution of robot control for manual operation, thereby reducing technical manpower requirements, are rapidly being developed. Regional networks tied together by micro-wave relay will also be a boon to small-market stations.

Along with methods of reducing costs a possibility for increasing revenues should be taken into account. Instead of depending entirely upon advertising, some stations might supplement their revenue with payments received from viewers. In pay-as-you-view or box-office television the idea is to broadcast a scrambled picture and require the viewer to pay for unscrambling it by dropping the price of the show in a coin box hooked on to his set, or by calling the telephone operator and asking to be connected with the show (the price being added to his telephone bill), or by inserting in his set a code card purchased ahead of time. If revenue from the home viewing audience approximated box-office receipts of one of the town's movie theaters a station would be well on its way to financial success. However, such a system would require the arrival at an equitable price and this would involve the FCC, thus bringing the Commission into the responsibility for the economics of television, which so far has been avoided.

For an industry which is growing so rapidly it must be concluded that its future dimensions will be influenced more by innovations yet to come than by extending experience of the past.

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## Business Briefs

(Continued from page 7)

panies was 6.4 per 1,000 lives in 1952, only slightly higher than the all-time low level of 6.3 established in 1949 and 1950. Heart diseases were responsible for over half of the deaths in 1952, according to the Institute of Life Insurance. Cancer, which accounted for about one-sixth of all policyholder deaths, and which ranked second as a cause of death, rose to a record high in 1952. Accidents, suicides, homicides, war deaths, and other external causes accounted for less than one-tenth of all policyholder deaths. Death rates for tuberculosis, diabetes, pneumonia, and influenza all showed declines in 1952.

An analysis of the causes of death among policyholders during the past fifty years reveals a decreasing number of deaths from infectious diseases but an increasing number from the degenerative diseases. Since life expectancy has been lengthened, more people are living to succumb to degenerative conditions. Although most medical research in the past has been devoted to the infectious diseases, more effort is now being directed toward the diseases of middle and old age.

# LOCAL ILLINOIS DEVELOPMENTS

Although seasonal movements were responsible for much of the increase in business activity from February to March, most indicators also registered gains over March, 1952. Electric power production, bank debits, construction contracts awarded, and life insurance sales rose at least 10 percent above March of last year as well as above the February level. Farm prices received were 9 percent lower than the same month a year ago.

## Coal Production Gains Slightly

Illinois coal production in March, totaling 3.8 million tons, was 2.4 percent more than February output but 4 percent less than the same month a year ago. Two-thirds of the coal produced during March was mined in six of the 29 counties registering output. The leaders, ranked in order of production, were Christian, Fulton, Perry, Franklin, Williamson, and St. Clair counties.

As a source of employment, coal fields rank second only to agriculture in the southern portion of the State. During recent months, however, many of the mines have closed because a mild winter cut fuel needs and the use of oil and gas has increased. As a result, community leaders are intensifying efforts to bring in new industries, using the ample labor supply as an inducement.

## Farm Income Down

Earnings of Illinois farmers dropped 22 to 43 percent from 1951 to 1952 according to the University's Farm Bureau Farm Management Service. Income on 250 sample farms revealed that returns per acre for feeder cattle-hog farms in northwestern Illinois declined 43 percent, from \$40 to \$23, and that central Illinois grain farmers earned only \$27 per acre in 1952 as compared with \$42 in 1951. Similar decreases in per acre earnings were recorded for hog farms in the north central portion of the State (off 31 percent), for dairy farms near St. Louis (down 27 percent), and for dairy farms in the Chicago area (down 22 percent).

Earnings are defined as returns on invested capital, including real estate, livestock, equipment, and management. Also included in earnings are tenant and landlord shares on rented farms; operator and family labor payments; and inventory change, which accounted for much of the drop in earnings.

Returns on the sample farms per \$100 worth of feed dropped between 1951 and 1952 from \$170 to \$89 for beef cow herds, from \$142 to \$90 for feeder cattle, from \$137 to \$115 for poultry, from \$132 to \$117 for hogs, and from \$179 to \$166 for dairy herds.

## Consumer Price Index

Retail prices of goods and services bought by families of urban wage and clerical workers in Chicago moved downward for the fourth consecutive month in March. At 113.8 (1947-49 = 100), the index was fractionally below the preceding month but remained slightly above that of March, 1952.

Retail food prices in March were up slightly from the February level but were down almost 3 percent from the same month a year ago. Housing costs were 3 percent higher than in March, 1952. The indexes for apparel and miscellaneous goods and services increased both from the preceding month and from the same month a year ago, whereas those for transportation, medical care, and personal care declined from the February level but remained higher than in March, 1952.

## Record Steel Production

Steel production in the Chicago area rose to record heights during March. The sixteen companies in the district produced 2.2 million net tons of steel, 17 percent more than in February and 5 percent more than the previous record, established in January. Only the 35 mills in the Pittsburgh-Youngstown District produced more steel during March than Chicago area companies.

During the first quarter of 1953, Chicago steel mills operated at 100.2 percent of capacity and produced 6.2 million net tons. Only 5.7 million net tons were produced during the same period of 1952.

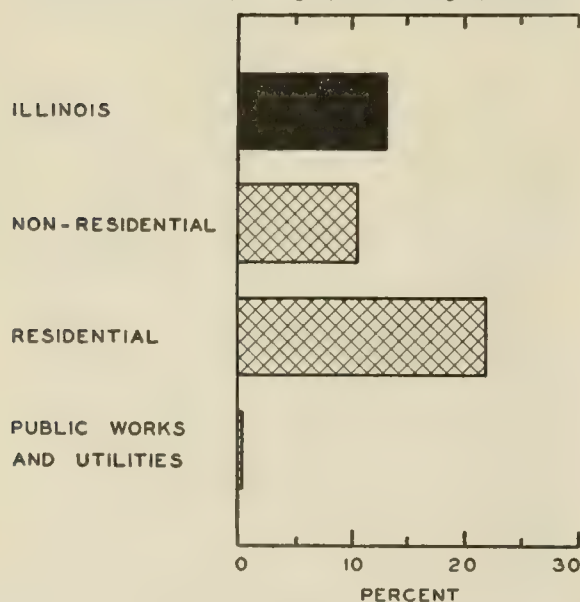
## Construction Up

Illinois seems to be benefiting at least as much as the rest of the nation from the construction boom. The value of construction contracts awarded in the State during March, 1953, rose to \$103.7 million, 43 percent more than the same month a year ago and 73 percent higher than February.

The gain over March, 1952, was most evident in public works and utilities, which increased 150 percent, but residential and nonresidential construction awards were also up, about 20 percent. The improvement over the preceding month was largely the result of an upward seasonal trend in awards for residential construction and for public works and utilities.

During the first three months of the year, cumulative awards in Illinois totaled \$211.6 million, or 13 percent more than the same period last year. The chart shows that the principal factor in this gain is a rise of almost 22 percent in residential construction awards. This is far above the national average, where homebuilding has been running only a few percent ahead of last year. Public works and utilities were also up over last year, but by a much smaller margin.

CONSTRUCTION CONTRACTS AWARDED  
Percent increase, 1st Qtr., 1952-1st Qtr., 1953



Source: F. W. Dodge Corporation.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

March, 1953

		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b>							
ILLINOIS		\$21,765 <sup>a</sup>	990,988 <sup>a</sup>	\$509,075 <sup>a</sup>		\$14,286 <sup>a</sup>	\$13,407 <sup>a</sup>
Percentage Change from	{ Feb., 1953	+19.2	+1.3	-4.1	+23	n.a.	+16.0
	{ Mar., 1952	-3.8	+6.1	+5.3	+6	+13.4	+8.0
<b>NORTHERN ILLINOIS</b>							
Chicago		\$14,716	781,408	\$375,259		\$13,166	\$11,631
Percentage Change from	{ Feb., 1953	+4.1	+1.9	-4.0	+22	n.a.	+15.8
	{ Mar., 1952	-8.1	+6.5	+4.1	+6	+13.7	+8.0
Aurora		\$ 474	n.a.	\$ 6,954		\$ 49	\$ 99
Percentage Change from	{ Feb., 1953	+127.9		-12.1	+34	n.a.	+6.7
	{ Mar., 1952	+41.5		+5.8	+8	+11.8	+18.4
Elgin		\$ 391	n.a.	\$ 4,926		\$ 28	\$ 97
Percentage Change from	{ Feb., 1953	+87.1		-8.9	+22	n.a.	+10.9
	{ Mar., 1952	+59.6		-0.3	+12	-1.6	+6.1
Joliet		\$ 385	n.a.	\$10,659		\$ 62	\$ 75
Percentage Change from	{ Feb., 1953	+161.9		-7.7	+36	n.a.	+4.0
	{ Mar., 1952	+53.4		+17.6	+22	+19.3	-20.0
Kankakee		\$ 109	n.a.	\$ 5,139		n.a.	\$ 32
Percentage Change from	{ Feb., 1953	-47.3		+3.0	n.a.	n.a.	+8.1
	{ Mar., 1952	-12.8		+23.2			+5.7
Rock Island-Moline		\$ 446	19,595	\$ 9,861		\$ 83 <sup>b</sup>	\$ 149
Percentage Change from	{ Feb., 1953	-62.2	-7.8	+2.2	n.a.	n.a.	+3.3
	{ Mar., 1952	-28.2	+4.9	+12.6		+6.2	-1.4
Rockford		\$ 688	32,598	\$15,723		\$ 150	\$ 218
Percentage Change from	{ Feb., 1953	+64.2	-5.0	-16.3	+39	n.a.	+17.7
	{ Mar., 1952	-74.9	+16.6	+10.2	+19	+14.6	+14.0
<b>CENTRAL ILLINOIS</b>							
Bloomington		\$ 136	6,547	\$ 5,026		\$ 60	\$ 141
Percentage Change from	{ Feb., 1953	-11.1	-1.1	+1.2	n.a.	n.a.	+37.6
	{ Mar., 1952	-0.7	+9.6	+10.7		+20.9	+24.0
Champaign-Urbana		\$ 99	8,359	\$ 7,109		\$ 52	\$ 93
Percentage Change from	{ Feb., 1953	-9.2	-5.7	+4.1	n.a.	n.a.	+21.9
	{ Mar., 1952	-49.0	+3.2	+12.7		+3.3	+12.0
Danville		\$ 80	8,173	\$ 5,244		\$ 41	\$ 55
Percentage Change from	{ Feb., 1953	-33.9	-2.1	-12.6	+38	n.a.	+25.0
	{ Mar., 1952	-62.6	+6.2	+1.4	+3	+4.1	+7.1
Decatur		\$ 372	21,668	\$ 8,784		\$ 93	\$ 108
Percentage Change from	{ Feb., 1953	+175.6	-1.3	-2.6	+36	n.a.	+11.2
	{ Mar., 1952	+82.4	+6.8	+7.9	+2	+3.7	+1.5
Galesburg		\$ 121	6,363	\$ 3,744		n.a.	\$ 33
Percentage Change from	{ Feb., 1953	+108.6	-3.0	-4.1	n.a.		+9.5
	{ Mar., 1952	+16.3	+7.3	+8.9			+10.4
Peoria		\$2,289	44,999 <sup>c</sup>	\$16,298		\$ 198	\$ 223
Percentage Change from	{ Feb., 1953	+512.0	+2.8	-1.0	+32	n.a.	+19.1
	{ Mar., 1952	+461.0	-4.3	+4.6	+12	+5.8	+8.8
Quincy		\$ 69	6,838	\$ 4,412		\$ 35	\$ 70
Percentage Change from	{ Feb., 1953	-30.3	-8.2	-0.5	+27	n.a.	+3.0
	{ Mar., 1952	-43.0	+0.6	+4.5	+13	+5.0	+0.1
Springfield		\$ 716	25,558 <sup>c</sup>	\$12,205		\$ 98	\$ 246
Percentage Change from	{ Feb., 1953	+85.0	+5.4	-2.7	n.a.	n.a.	+33.1
	{ Mar., 1952	+105.7	+2.8	+4.2		+12.9	+10.4
<b>SOUTHERN ILLINOIS</b>							
East St. Louis		\$ 413	12,364	\$ 9,235		\$ 138	\$ 65
Percentage Change from	{ Feb., 1953	+134.7	-4.0	+1.8	n.a.	n.a.	+24.9
	{ Mar., 1952	+88.6	+5.9	+11.9		+14.4	+18.5
Alton		\$ 169	11,281	\$ 4,598		\$ 35	\$ 31
Percentage Change from	{ Feb., 1953	+83.7	+4.7	+1.2	n.a.	n.a.	+23.3
	{ Mar., 1952	-42.1	+3.6	+8.8		+20.5	+20.1
Belleville		\$ 92	5,237	\$ 3,899		n.a.	\$ 39
Percentage Change from	{ Feb., 1953	+119.0	+1.4	-0.0	n.a.		+13.5
	{ Mar., 1952	+46.0	+3.6	+8.6			+4.7

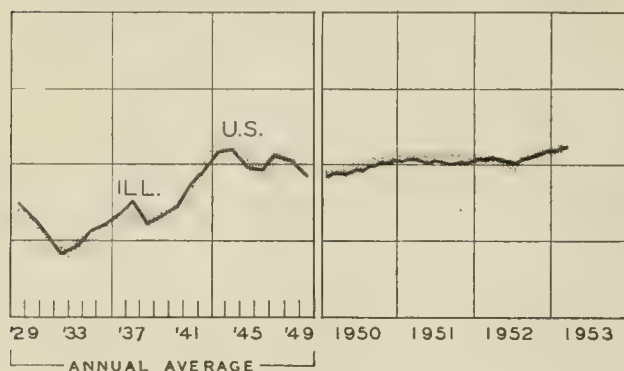
<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.

Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for February, 1953, the most recent available. Comparisons relate to January, 1953, and February, 1952. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. Month-to-month comparisons of bank debits omitted because comparable February data are unavailable. <sup>5</sup> Local post office reports.

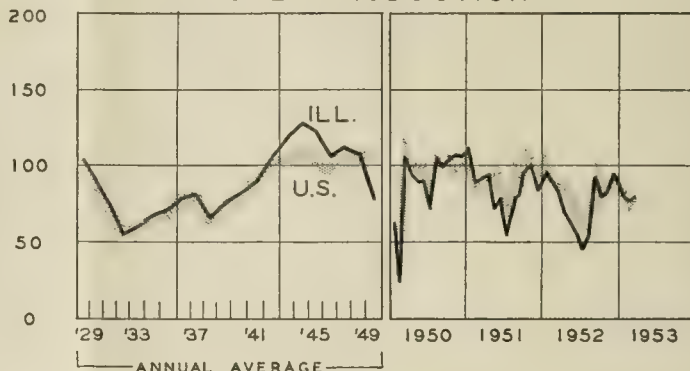
# INDEXES OF BUSINESS ACTIVITY

1947-1949=100

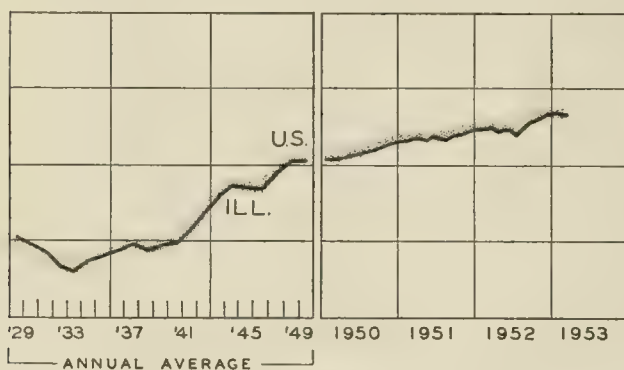
## EMPLOYMENT - MANUFACTURING



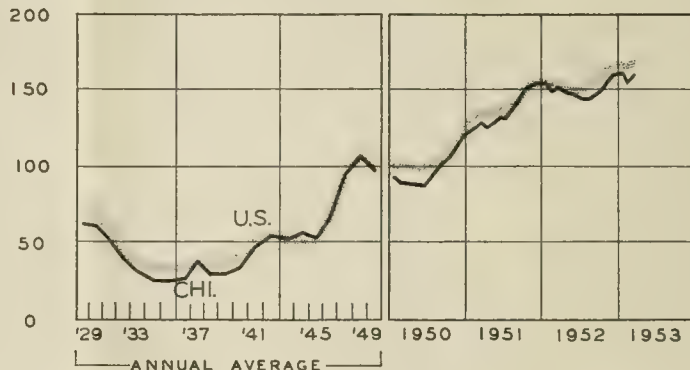
## COAL PRODUCTION



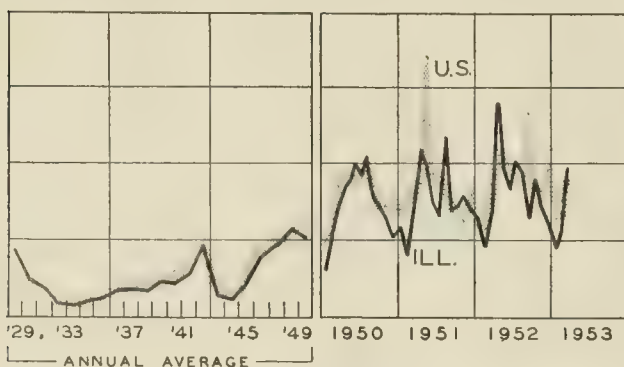
## AVG. WKLY. EARNINGS - MANUFACTURING



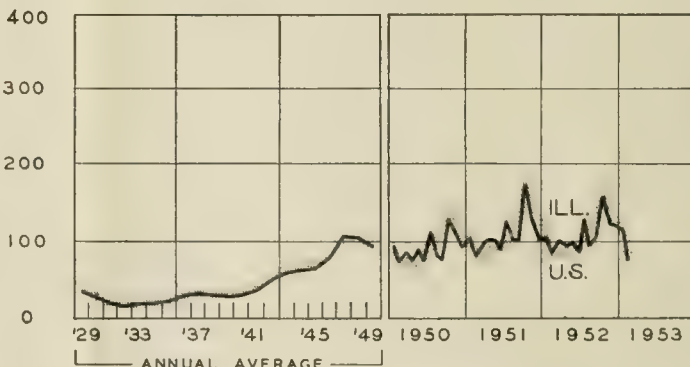
## BUSINESS LOANS



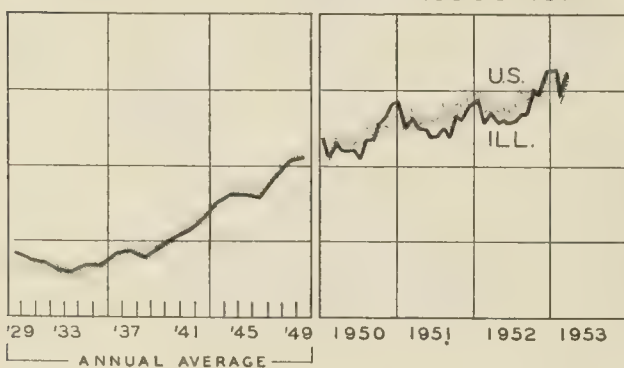
## CONSTRUCTION CONTRACTS AWARDED



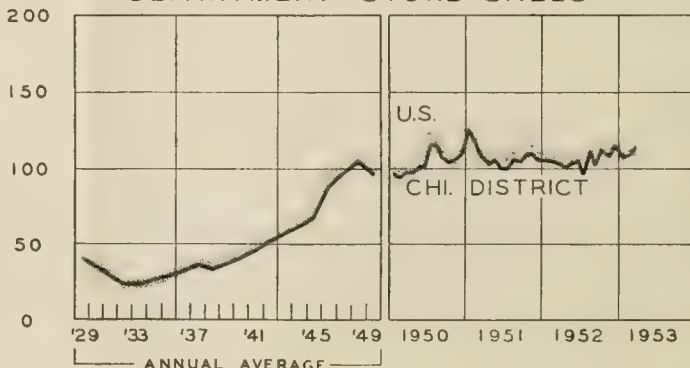
## CASH FARM INCOME



## ELECTRIC POWER PRODUCTION



## DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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## HIGHLIGHTS OF BUSINESS IN MAY

Industrial production remained steady in May. At 242 percent of the 1935-39 average, industrial activity was only 1 index point below the postwar high reached in March and was 15 percent above the May, 1952, level. Output thus seems to be leveling off just below the all-time high of 247 set in November, 1943, during the period of all-out war mobilization. Steel production was scheduled at about capacity during the month. Output of passenger cars early in May was at an annual rate of 7.2 million units but dropped later in the month because of work stoppages.

The Federal Reserve Board's preliminary May report on consumer durables production indicates a decline caused by reductions in the output of major appliances and television sets. From March to April the FRB's index of production of household goods showed a 5.5 percent decline, with cuts in all classes except furniture. Compared with April, 1952, however, total production of consumer durables was up more than 40 percent, and all groups were substantially higher.

### Department Store Sales at May High

Department store sales rebounded in May to an estimated 116 (1947-49 = 100), somewhat higher than the March level. According to the FRB weekly releases, all districts showed substantial increases in the four-week period ended May 23. For the nation as a whole the increase was 6 percent.

May sales were at the highest level ever attained in that month, and when adjustment is made for the changing date of Easter, sales in March and April set records for those months. As far as can be determined, the new high level has not resulted from temporary influences on consumer buying. It mainly reflects rising incomes, although sales also benefited as consumers were able to shift spendable income from purchases of food to purchases of other goods as a result of lower farm prices. It may also be pointed out that people are both buying and saving, in contrast with earlier periods when purchases were sometimes abnormally high at the expense of saving, as in the period of scare buying in late 1950 and early 1951.

### Prices Virtually Stable

Consumer prices rose only fractionally during the latest period reported, the month ended April 15; whole-

sale prices continue to hold at about 110 (1947-1949 = 100) as they have since the first of the year.

Farm prices increased three-fourths of 1 percent during the month ended May 15, reversing a downward movement which started last September. At 261 (1910-14 = 100), the index was 11 percent below a year ago and was down 17 percent from the February, 1951, high. Much of the latest strengthening in agricultural prices reflects gains in prices for meat animals. Prices paid remained unchanged at 279, and the parity ratio rose 1 index point to 94.

The recent upsurge in the controversy over the farm program has again focused attention on the ratio of average prices and parity prices. Of 30 commodities for which May 15 data are available, 23 were then selling on the market at prices ranging from 2 percent to 57 percent below parity; 15 were selling below the support level of 90 percent of parity. Wheat, for example, was 15 percent below parity, corn 16 percent. Prices of beef cattle, calves, and sheep were below parity by 17, 15, and 22 percent, respectively. Hog prices, at 114 percent of parity, were a notable exception among the most important farm products of this region. Of the major items produced in the Midwest, only soybeans, hogs, chickens, and eggs showed advances over May 15, 1952.

### Demand for Credit Remains Strong

Demand for credit continues to be strong at all levels. Business is still seeking funds with which to add to plant and equipment and build up working capital; consumers have been substantially increasing their debts, mainly to purchase durable goods.

Bank loans to business, which ordinarily show a considerable seasonal drop after Christmas, have fallen only 1 percent since the beginning of the year. This is partly due to heavy borrowings to meet tax payments, but chiefly reflects a slowness in repayment of seasonal loans. New corporate security issues so far in 1953 have been 5 percent above last year. New records are also being set by residential mortgages, which were 12 percent higher in the first quarter of 1953 than in the first quarter of 1952.

Outstanding credit to consumers has risen continuously since March, 1952. At \$26.2 billion on April 30 this year, such credit was 25 percent higher than at the end of April, 1952. Installment credit on automobiles accounted for more than half the gain.

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## Implications of the Auto Boom

Favorite topic of the forecasters is the coming "slump" in autos. Here is one place that something definite can be said about business prospects. There is general agreement that recent high rates of output cannot be maintained; and from this it is easy to conclude that workers will be laid off and hard times will appear, not only in the auto industry but in all those supplying parts and materials.

Even more dire predictions are frequent, since many look for the decline to cumulate into a general economic spiral. The importance of this industry is held to be so overwhelming, its repercussions so widespread, that any decline will surely be felt throughout the economy. Thus, the one definitely bearish prospect in the whole business picture for late 1953 is blown up into a major recession. What are the facts?

### Why Production Is Too High

There are indeed good reasons for thinking that the current rate of auto production is too high. For one thing, it is above sales. Part of current production is going into dealers' inventories, and inventories can't be accumulated indefinitely. What should be understood, however, is that this accumulation is a voluntary movement designed to bring inventories up to the point where selling can proceed with maximum efficiency. During the period of controls, and particularly after last year's steel strike, dealers' inventories were drawn down to an abnormally low level. They had to expand and are now being expanded. Production will run ahead of sales during the next few months until stocks are fully rebuilt.

But sales themselves have been boosted by temporary factors above a rate that can be maintained. The recent high level of sales partly expresses a rebound from the period of restriction. Production of 1952 models, at a little over 4 million, was perhaps a million below what could have been sold, and consumers are making up the deficit by buying correspondingly more of the improved 1953 models.

Moreover, there is some evidence of a return of seasonal buying. In prewar markets, the heaviest sales were made in the months of March through June. This old seasonal pattern was not experienced in most postwar years because the supply of cars available was not sufficient to permit buyers to purchase when they pleased. Now they are again buying in the season that best suits their convenience. In prewar years, the last half was

usually 20 percent below the first half. In view of the other special factors operating in the current situation, it would not be at all surprising to find the decline fully as great this year.

Both of these temporary stimuli suggest that there will be a letdown in the latter part of the year, but neither implies a continuing downtrend. Once the backlog of demand is worked off, sales will drop back, but then normal patterns of buying may again be expected. Similarly, once the seasonal low is reached, the movement will be up toward the next seasonal high. It may be recalled that the peak of the general inflationary upsurge at the end of 1950 occurred while auto production was making model change-over lows at a rate only half the peak reached the previous June. (Comparisons between the extreme high and low of 1953 are likely to be equally meaningless.)

From a longer run point of view, it seems clear that a rate of sales of even 6 million cars per year would soon saturate the market and force a production cutback. The high production of 1950 brought car ownership more or less into line with long-term trends. Some demands accumulated during the intervening period, but this year's sales will again bring car ownership up into normal relationship with population, family formation, and employment data. In the future, therefore, sales will be confined to replacement needs and a relatively small increment of growth. Even if these "normal" sales are estimated at less than 5 million cars in 1954, they still represent a volume not in any way disastrous to either the industry or the economy.

Nobody is better aware of the facts than the auto industry itself — unless perhaps it is the dealers who are expected to be caught with a tremendous surplus of cars that can't be sold in the coming "buyer's market." The industry is, in fact, not too happy about some aspects of the current situation. Current pressure for production involves too much scrambling for materials and labor, and too high costs in the form of premium prices and overtime wage rates. The fact that contracts for costly conversion steel are already being terminated indicates how fully prepared they are to make the readjustment.

### No Threat to the Economy

Granting that there must be a cutback in auto production, it would seem that there can be no doubt that the economy will be affected. The important question, however, concerns not the nature of the effect but its extent, and this quantitative question cannot be answered solely in terms of what happens to the auto industry, but must take account also of the other industries producing and selling to the same buyers. The question is, What will happen to consumer expenditures generally?

It is clear that consumer expenditures have been built up to a relatively high level by the high sales of durable goods. When a car is bought, it is usually financed partly by past savings, the down payment, and partly by future savings, which are made immediately available through consumer credit. Thus, future savings are mortgaged against the present purchase; but to the extent that such amounts would be saved anyway, they do not reduce future purchases. It is the extent to which repayment of installment debt might depress future consumption that matters, and this must be gauged in terms of the level of aggregate savings.

Currently, the situation is not at all like some previous periods of heavy buying, when purchases were so high in

(Continued on page 6)



### THE PORTLAND CEMENT INDUSTRY

Although the early Greeks and Romans knew how to make cement of remarkable strength and durability, today's cement is not a direct descendant of that produced by these ancient peoples. The art of producing cement which would harden under water, known as hydraulic cement, was lost during the Middle Ages and had to be rediscovered. It was not until 1756 that a hydraulic cement was again invented, this time by an English engineer named John Smeaton. In 1824 another Englishman, a bricklayer and mason named Joseph Aspdin, took out a patent on a new hydraulic cement which he called "portland" cement because it resembled in color the stone quarried on the Isle of Portland on the south coast of England. Aspdin's cement was produced by carefully proportioning limestone and clay, pulverizing them, and burning the mixture into a clinker which was then ground into finished cement. Although the process has been greatly refined in subsequent years, the basic process used today is the same as Aspdin's.

#### History in the United States

Portland cement was first shipped to the United States in 1868 and thereafter volume grew until 1895, when a record 3 million barrels were imported. After that date, Americans began producing increasing quantities of portland cement for themselves and imports fell off.

The first plant to produce portland cement in the United States began operations at Coplay, Pennsylvania, in 1872 and was soon followed by others. In 1880, about 40,000 barrels of portland cement were produced in the United States. By 1950, well over 200 million barrels, worth almost \$526 million, were produced by the 150 plants active in production of portland cement. More than 98 percent of all hydraulic cement produced in the United States is portland.

#### Production and Use

No portland cement was manufactured in Illinois until after the turn of the century, when the growth of industry and population made practical the construction of cement mills in the State. By 1919 five mills were producing almost \$10 million worth of cement, almost 5 percent of the nation's output. Large quantities of raw materials located at convenient distances from the mills and large demand within the State have helped Illinois cement firms to expand until in 1948 Illinois firms produced over \$15 million worth of cement.

Today, there are four cement mills in Illinois, all of which are located in the northern half of the State. Two are found at Oglesby, one at LaSalle, and one at Dixon.

Location in the northern part of Illinois is probably best explained in terms of transportation economies. The greatest demand for the product is in Chicago and neighboring communities and the raw materials of cement production such as limestone, gypsum, and blast furnace slag are available nearby.

Not only is Illinois one of the leading states in the production of cement, but it is also one of the most

important consumers in the nation. During 1950, Illinois ranked fifth among the states as a consumer of portland cement and used over 5 percent of the nation's production. One of the largest uses of portland cement in Illinois is for the construction of roads, streets, and airports. Illinois has well over 13,000 miles of roads and 7,000 miles of streets, making a total of over 20,000 miles of concrete, or more than 10 percent of the nation's total. In addition, concrete airport runways account for another 600 miles of concrete. Other important uses are for residential and nonresidential building, construction of dams, and sewage systems.

#### Manufacturing Process

Portland cement is a chemical combination of lime and silica, which make up between 75 and 80 percent of the mass, with alumina and iron oxide making up most of the remainder. Gypsum is added during the final grinding process to regulate the setting time of the cement. Some 80 operations requiring a great deal of heavy machinery are required to produce portland cement, making the capital investment per worker in the cement industry among the highest of all industries.

The first step in the process is the grinding and mixing of the raw materials. The mixture is then fed into large kilns which are frequently as much as 12 feet in diameter and 150 yards long. Here it is heated to a temperature of about 2700 degrees Fahrenheit. The heat drives off certain gases and pieces of "clinker" are formed which are about the size of marbles. Next, the white hot clinker is mechanically cooled and moved through a series of grinding machines. Gypsum is added and the final grinding takes place. The portland cement produced is a powder so finely ground that 90 percent or more of it can pass through a screen containing 40,000 openings to the square inch.

#### Outstanding Safety Record

The cement industry takes a great deal of pride in the fact that although cement making involves a number of operations such as quarrying, mining, and blasting, the use of high voltage electric current, intense heat, and some of the world's largest moving machinery, it has achieved one of industry's finest safety records. In 1924, with 110 plants reporting, there were 60 fatal accidents and 76 accidents involving permanent disabilities. Only one plant had no accidents in that year. By 1950, with 141 plants reporting, there were only 12 fatal accidents and 47 accidents involving permanent disabilities. Over 31 percent of the plants had no accidents during the year.

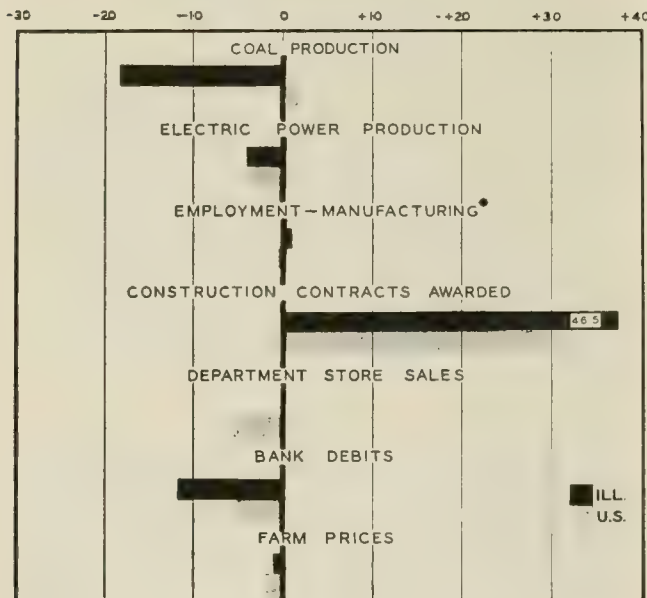
With the growing demand for concrete in building and road construction and the development of new uses for concrete in semi-fabricated forms, the cement industry seems likely to keep pace with the growth of the economy. The industry's trade group, the Portland Cement Association, is doing a good deal of research on the improvement of production methods and on new uses of concrete.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes March, 1953, to April, 1953



\* February, 1953, to March, 1953.

## ILLINOIS BUSINESS INDEXES

Item	April 1953 (1947-49 =100)	Percentage Change from	
		March 1953	April 1952
Electric power <sup>1</sup> .....	154.7	- 4.0	+19.4
Coal production <sup>2</sup> .....	65.0	-18.4	- 8.1
Employment—manufacturing <sup>3</sup> .....	112.7	+ 0.5 <sup>a</sup>	+ 6.8 <sup>b</sup>
Payrolls—manufacturing.....	n.a.		
Dept. store sales in Chicago <sup>4</sup> .....	105.0 <sup>c</sup>	0.0	+ 9.4
Consumer prices in Chicago <sup>5</sup> .....	114.2	+ 0.4	+ 0.7
Construction contracts awarded <sup>6</sup> .....	286.2	+46.5	+ 2.6
Bank debits <sup>7</sup> .....	144.5	-11.6	+12.3
Farm prices <sup>8</sup> .....	102.0	- 0.8	- 9.0
Life insurance sales (ordinary) <sup>9</sup> .....	162.5	- 1.7	+18.4
Petroleum production <sup>10</sup> .....	89.7	- 4.3	- 1.1

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor;  
<sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.

<sup>a</sup> February, 1953, to March, 1953. <sup>b</sup> March, 1952, to March, 1953.  
<sup>c</sup> Seasonally adjusted. n.a. Not available.

## UNITED STATES MONTHLY INDEXES

Item	April 1953	Percentage Change from	
		March 1953	April 1952
	Annual rate in billion \$		
Personal income <sup>1</sup> . . . . .	283.1 <sup>a</sup>	+ 0.1	+ 7.8
Manufacturing <sup>1</sup> . . . . .			
Sales . . . . .	322.8 <sup>a</sup>	+ 4.7	+14.5
Inventories . . . . .	44.3 <sup>a, b</sup>	+ 0.5	+ 2.1
New construction activity <sup>1</sup> . . . . .			
Private residential . . . . .	10.6	+ 5.6	+ 4.5
Private nonresidential . . . . .	11.0	+ 4.3	+ 8.7
Total public . . . . .	10.0	+14.3	+ 1.3
Foreign trade <sup>1</sup> . . . . .			
Merchandise exports . . . . .	n.a.		
Merchandise imports . . . . .	n.a.		
Excess of exports . . . . .	n.a.		
Consumer credit outstanding <sup>2</sup> . . . . .			
Total credit . . . . .	26.2 <sup>b</sup>	+ 2.0	+25.0
Installment credit . . . . .	19.7 <sup>b</sup>	+ 2.1	+33.5
Business loans <sup>2</sup> . . . . .	23.1 <sup>b</sup>	- 0.9	+11.2
Cash farm income <sup>3</sup> . . . . .	22.8	- 5.6	- 7.6
	Indexes (1947-49 = 100)		
Industrial production <sup>2</sup> . . . . .			
Combined index . . . . .	131 <sup>a</sup>	+ 0.4	+12.5
Durable manufactures . . . . .	151 <sup>a</sup>	- 0.3	+18.1
Nondurable manufactures . . . . .	115 <sup>a</sup>	- 1.5	+ 8.2
Minerals . . . . .	111 <sup>a</sup>	0.0	- 2.4
Manufacturing employment <sup>4</sup> . . . . .			
Production workers . . . . .	111 <sup>a</sup>	- 0.6	+ 6.8
Factory worker earnings <sup>4</sup> . . . . .			
Average hours worked . . . . .	102	- 0.7	+ 2.5
Average hourly earnings . . . . .	132	0.0	+ 6.1
Average weekly earnings . . . . .	135	- 0.7	+ 8.7
Construction contracts awarded <sup>5</sup> . . . . .	228	+29.2	+ 9.0
Department store sales <sup>2</sup> . . . . .	107 <sup>a</sup>	- 5.3	+ 3.9
Consumers' price index <sup>4</sup> . . . . .	114	+ 0.1	+ 0.7
Wholesale prices <sup>4</sup> . . . . .			
All commodities . . . . .	109	- 0.5	- 2.1
Farm products . . . . .	98	- 2.3	-10.3
Foods . . . . .	103	- 0.9	- 4.4
Other . . . . .	113	- 0.1	0.0
Farm prices <sup>3</sup> . . . . .			
Received by farmers . . . . .	96	- 1.9	-10.7
Paid by farmers . . . . .	112	- 0.7	- 3.5
Parity ratio . . . . .	93 <sup>c</sup>	- 1.1	- 7.0

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1953					1952
	May 23	May 16	May 9	May 2	Apr. 25	May 24
Production:						
Bituminous coal (daily avg.).....	1,464	1,521	1,475	1,458	1,500	1,479
Electric power by utilities.....	8,013	7,959	7,897	7,939	8,016	7,146
Motor vehicles (Wards).....	151.6	165.6	167.6	172.7	182.6	117.8
Petroleum (daily avg.).....	6,269	6,267	6,242	6,183	6,184	
Steel.....	140.1	140.8	140.6	140.8	141.7	132.8
Freight carloadings.....	770	780	765	781	780	762
Department store sales.....	112	105	128	114	104	105
Commodity prices, wholesale:						
All commodities.....	109.9	109.9	109.9	110.0	109.7	111.6
Other than farm products and foods.....	113.6	113.4	113.4	113.3	113.2	113.0
22 commodities.....	88.4	87.6	88.0	87.6	87.8	98.7
Finance:						
Business loans.....	22,965	23,083	23,139	23,133	23,156	20,800
Failures, industrial and commercial.....	156	198	165	169	159	145

Source: Survey of Current Business, Weekly Supplements.



# RECENT ECONOMIC CHANGES

## Oleomargarine Production Up, Butter Down

For more than a decade butter producers have been losing more and more business to their principal competitor, oleomargarine. As shown by the accompanying chart, butter output has fallen sharply since 1940, whereas production of oleomargarine has moved steadily upward. Last year for the first time in history production of oleomargarine surpassed that of butter.

The large shift in demand from butter to margarine is especially evident in the per capita consumption figures of the two products. In 1940 per capita consumption of butter amounted to 16.7 pounds; by 1952 it had fallen to 8.8 pounds. During the same period, margarine consumption rose from 1.9 pounds per person to 7.8 pounds. The rising popularity of oleomargarine is partly explained by attractive packaging and coloring of the product, but mainly to the wide price differential between the two products. As indicated by the upper panel of the chart, 2½ to 3 pounds of oleomargarine could be purchased last year for the same price as a pound of butter.

## Manufacturers' Profits Off in 1952

Profitwise, last year was not as good a year as 1951 for most manufacturing corporations, according to a joint

report by the Securities and Exchange Commission and the Federal Trade Commission. Manufacturers' sales in 1952 climbed to a record \$250 billion, 2 percent above sales in 1951. But expenses and costs moved up relatively more than sales, so that profits after taxes dropped to \$10.7 billion, 10 percent lower than a year earlier.

Most manufacturing industries shared in the decline. Percentage decreases were largest, amounting to 25 percent or more, in the textile mill, lumber, and primary iron and steel industries. Of 23 different industry groups, only five had higher profits last year than the year before. The biggest advance was in the leather group, where profits were almost triple 1951. In the transportation equipment (excluding motor vehicles) and apparel industries profits were up more than 35 percent. Smaller increases occurred in the electrical machinery and motor vehicle and parts industries.

## Employment Rises Slightly

The number of jobholders advanced slightly in May to 61.7 million. The gain was less than expected for this time of year, as unfavorable weather conditions in many parts of the country slowed the usual spring increase in outdoor work. Nonagricultural employment increased about 110,000 to 55.3 million and farm employment was up 320,000 to 6.4 million. Although total employment in May was at a record for the month, the number of agricultural workers was about half a million below farm employment in May, 1952.

Unemployment fell about 300,000 in May to 1.3 million, and was only slightly above the postwar low of last October, as a number of jobless found employment in outdoor work. In addition, some women who had been looking for work in April dropped out of the labor force in May. Census data in thousands of workers are as follows:

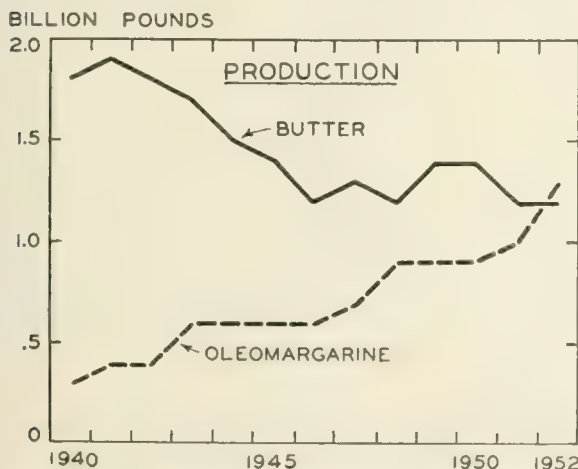
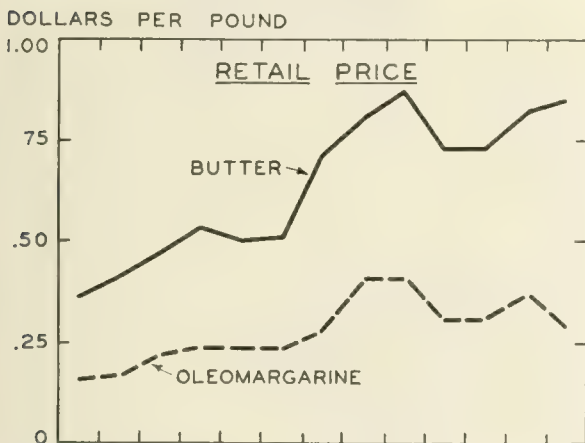
	May 1953	April 1953	May 1952
Civilian labor force.....	62,964	62,810	62,778
Employment.....	61,658	61,228	61,176
Agricultural.....	6,390	6,070	6,960
Nonagricultural.....	55,268	55,158	54,216
Unemployment.....	1,306	1,582	1,602

## National Product Still Rising

Gross national product continued upward in the first quarter of 1953, advancing \$2 billion to an annual rate of \$361 billion. The most significant feature of the first quarter business situation was an \$8.5 billion increase in the flow of goods and services to final use. Of this advance consumer purchases accounted for \$4 billion, fixed capital investment for new plant and equipment and new houses for \$3.5 billion, and Federal, state, and local government outlays for purposes other than national security for \$1 billion. Net foreign investment declined about \$1 billion, but the big offset to the rise in civilian demand was a \$6.4 billion decline in the rate of inventory accumulation.

Changes in inventories have been of major importance to over-all changes in economic activity since the outbreak of hostilities in Korea. As shown by the accompanying chart fluctuations in business inventories throughout this period were almost entirely responsible for the wide swings in gross private domestic investment. In the fourth quarter of 1952 the increase in inventories accounted for more than a quarter of the total rise in GNP.

BUTTER AND OLEOMARGARINE PRICES  
AND PRODUCTION



Sources: U. S. Depts. of Agriculture, Commerce, and Labor.

This reflected rebuilding and balancing of stocks after settlement of the steel strike. With the completion of this restocking operation, inventories showed only small additional increases in the first quarter of 1953, indicating that, for the quarter, aggregate demand and supply were virtually in balance.

#### GROSS NATIONAL PRODUCT OR EXPENDITURE (seasonally adjusted, billions of dollars at annual rates)

	1st Qtr. 1953	4th Qtr. 1952	1st Qtr. 1952
Gross national product.....	361.0	359.0	339.7
Personal consumption.....	226.2	222.0	213.2
Durable goods.....	29.8	27.3	25.2
Nondurable goods.....	121.7	121.4	118.0
Services.....	74.6	73.3	70.0
Domestic investment.....	54.4	57.3	50.0
New construction.....	25.2	23.7	23.7
Producers' durable equipment..	27.5	25.6	25.7
Change in business inventories..	1.7	8.1	.6
Nonfarm inventories only.....	1.1	7.5	-.1
Foreign investment.....	-2.0	-.9	2.2
Government purchases.....	82.4	80.6	74.4

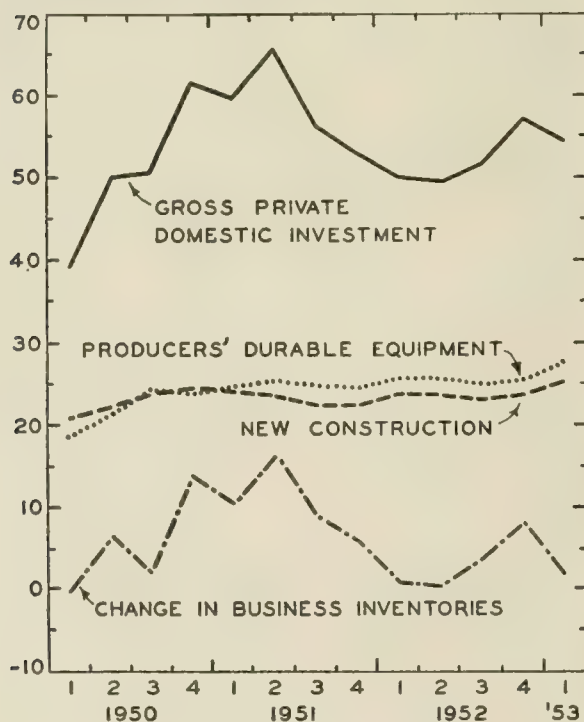
#### INCOME AND SAVINGS

National income.....	n.a.	300.2	288.0
Personal income.....	281.3	277.0	263.0
Disposable personal income.....	245.6	242.5	229.5
Personal saving.....	19.5	20.5	16.3

Personal consumption expenditures accounted for the bulk of the first quarter advance in civilian demand. The total was up \$4.0 billion to \$226 billion, with purchases of durable goods accounting for 60 percent of the increase. Automotive expenditures continued as the dominant factor in the durable goods rise. Consumer expenditures for nondurables moved up only fractionally to slightly under \$122 billion. Expenditures for services increased at about the same average annual rate—roughly \$1 billion per quarter—that has prevailed for the past two years.

Federal, state, and local government expenditures for goods and services increased by slightly less than \$2.0

#### GROSS PRIVATE DOMESTIC INVESTMENT BILLIONS OF DOLLARS



Source: U. S. Department of Commerce.

billion to \$82.4 billion in the first quarter. This advance was about evenly divided between increased state and local government expenditures and increased Federal government expenditures. The Federal government rise was attributable to an advance in national security outlays, mainly for foreign aid programs.

#### Construction Activity Continues High

New construction expenditures increased seasonally by 10 percent in May to \$2.9 billion, 6 percent above May, 1952. Despite adverse weather conditions, which kept private residential construction and road building from advancing as much as usual in May, most of the April-May rise occurred in these sectors. The advance in total construction outlays over May, 1952, was entirely due to increased expenditures for private construction. These were up 9 percent from May, 1952, to almost \$2 billion. Public outlays in May amounted to \$933 million, the same as a year earlier.

For the first five months of 1953, total new construction was at a record \$12.6 billion, almost 6 percent above the same months of 1952. Private construction, valued at \$8.7 billion, accounted for almost all of the gain over last year. This advance was mainly due to increased expenditures for new dwelling units and commercial building. Public expenditures totaled \$3.8 billion, only slightly above the January-May, 1952, level, as lowered activity on public housing, hospitals, and Federal reclamation and development work offset moderate gains for most other types of public construction.

#### Implications of the Auto Boom

(Continued from page 2)

relation to income that saving practically disappeared. In the third quarter of 1950, for example, personal saving dropped below a rate of \$5 billion, and was little more than 2 percent of consumers' income after taxes. In contrast, personal saving in the first quarter of this year was at a rate of \$19.5 billion and, at 8 percent of consumers' disposable income, was high in comparison with most past periods. It seems warranted to conclude that total consumer buying, including the large volume of durable goods now being sold, is only a little above normal.

When car buying drops, therefore, saving may increase in relation to income but not to anything like the full extent of the decline in purchases. The drop in buying, with its accompanying increase in saving in the form of repayments of consumer installment loans, will be partly offset by decreases in savings in other forms. Total spending will tend to be maintained in relation to income by a switch to increased purchases of nondurable goods and services.

To illustrate, assume that purchases of autos and other durable goods will drop \$3 billion by the year-end, losing most of the gain from 1952. This would bring them back to the average of the past two years and completely eliminate the increase in consumer credit. But it would probably reduce consumer spending in the aggregate by no more than half as much, or \$1½ billion in the aggregate. Such a moderate decline would be more than compensated by the tax reduction now scheduled to begin next January.

Unless there are declines elsewhere in the economy, therefore, the readjustment in the auto industry holds no bearish implication for the economy as a whole. The burden of proof is on the bears to show that any serious recession threatens in the year ahead.

VLB



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Farm Real Estate Investment

Total value of farm real estate amounted to about \$3,000 for every \$1,000 taken in from the sale of farm products in 1950 according to an article in the May issue of *Agricultural Statistics*. Studies of regional differences reveal a range in the amount of land investment per \$1,000 of gross income of from \$2,000 in the Northeast to \$3,500 in Texas and Oklahoma. However, a more striking relationship existed among farms with different levels of income. In general, lower income units required a greater investment in real estate per \$1,000 of products sold. Farms having gross income of between \$250 and \$1,199 needed about \$6,500 in real estate to produce \$1,000 in sales, whereas those whose gross income averaged \$25,000 or more required an investment of only \$2,000 in real estate per \$1,000 of products sold. However, many low-income farms are near urban centers and the values placed on them do not reflect strictly agricultural values. With the exception of the South, land investments are usually higher in relation to gross income in areas where field crops are the predominant source of income than in livestock areas where labor inputs are larger and more is invested in livestock. The large investments in real estate associated with high levels of farm income are due more to larger acreages than to better land.

### Lighter File Drawers

Lighter, more compact file drawers and trays have been produced by the Tab Products Company, 57 Post Street, San Francisco 4, California. Molded of Fiberglass-reinforced plastic, the drawers weigh less than 3½ pounds each—about half that of a comparable metal

unit—yet they are highly resistant to cracking, denting, or breaking.

Redesigned to a shorter length (24 inches) to make them easier to handle, the drawers are wider at the top than at the bottom with the inward taper guiding cards into alignment as they hit bottom. Each drawer has a capacity of nearly 3,300 cards. Quiet action in opening and closing the trays is achieved by a simplified single drawer suspension.

### Income Distribution

A study of changes in the distribution of income over the last 30 years has recently been completed by Simon Kuznets and the results published by the National Bureau of Economic Research, Inc., in a volume called *Shares of Upper Income Groups in Income and Savings*. The procedure followed was to compare the number and income of persons represented on Federal income tax returns with the total population and its income receipts. Examined in the investigation are the average level and structure of the income share of the upper income groups, characteristics of high income groups and some causes and consequences of their relative position, the association of incomes shares with business cycles, and the effect of changes in the share of income on total savings of individuals. Offering an integrated analysis of the part played by different groups in the movement of national aggregates, the 725-page book retails for \$9.00.

### Farm Equipment

More farms in the United States have automobiles than have telephones, according to the *Census of Agriculture*. A summary of farm facilities and equipment in use in April, 1950, shows that 63 percent of all farmers reported an automobile whereas only 38 percent owned a telephone. Of all facilities and equipment, electricity was the most common, being present on almost 80 percent of all farms. Automobiles ranked second and electric washing machines third (see chart). Less than half of the country's farmers owned a tractor and only one-third kept a motor truck. Electric hot water heaters had been installed on only 17 percent of the farms and home freezers were owned by only 12 percent.

Since the data were collected in early 1950, equipment has been added and these percentages have changed. Home freezers, for example, are probably present on more than 12 percent of the nation's farms at this time.

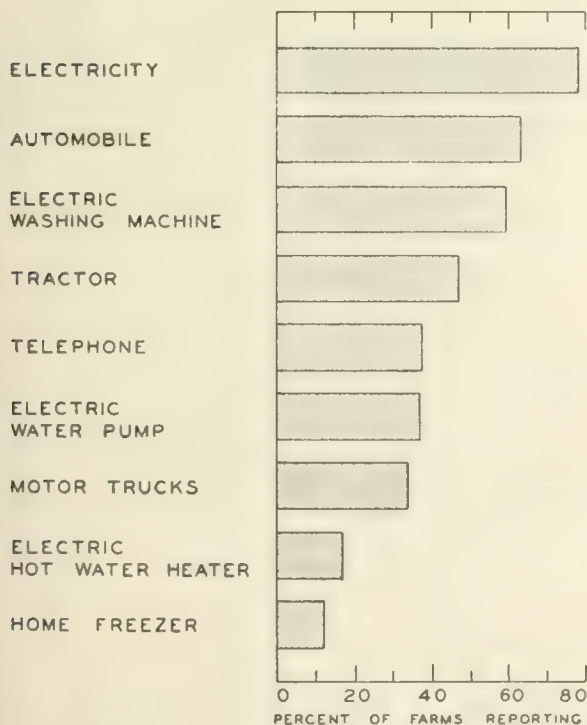
The 1950 *Census of Agriculture* defines a farm as any place where the value of agricultural products in 1949 amounted to \$150 or more. All land under the control of one person or partnership was included as one farm.

### Device to Close Home Windows

Windows that close automatically when it rains and open when the rain stops will soon be a reality by means of an unusual device manufactured by Micro-Moisture Controls, Inc., 40 East 49th Street, New York 17, N.Y. Small electric motors activated by relays connected to printed-circuit grids installed on the exterior of the building accomplish the action. When a drop of rain strikes the grid, the mechanism is put into operation and

(Continued on page 9)

FARM FACILITIES AND EQUIPMENT, 1950



Source: 1950 *Census of Agriculture*.

# CIVIL AVIATION AT MID-CENTURY

LESLIE A. BRYAN

Director, Institute of Aviation

The United States is celebrating the fiftieth anniversary of powered flight, yet aviation today presents as mystifying and stimulating a challenge to American enterprise and ingenuity as it did fifty years ago.

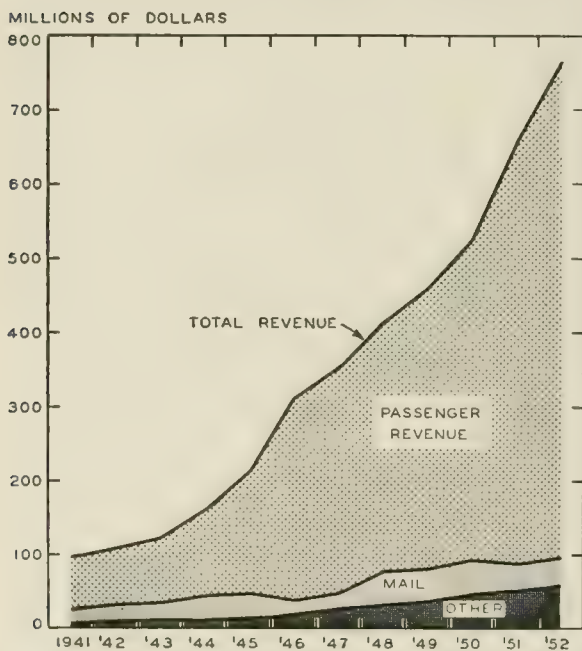
On December 17, 1903, a 12-horsepower biplane, built by Wilbur and Orville Wright, rose from the sands at Kitty Hawk, North Carolina, and remained airborne for 12 seconds. Today hundreds of thousands of men, thousands of aircraft, vast corporations, and billions of dollars are in aviation.

The first fifty years of powered flight have seen the airline industry come of age. In 1903, the Wright plane, weighing 750 pounds, including both Orville and the fuel, traveled 120 feet. Today the standard airplane in the United States scheduled airline fleet is capable of carrying 50 times the weight of the Wright plane and of flying nonstop from 12 to 15 hours. It can cover about 4,480 feet in 12 seconds, or more than 37 times the distance flown by the Wright plane.

## Scheduled Airlines

Two major segments of aviation at the fifty-year mark are the air transport industry and the aircraft manufacturing industry. The United States scheduled airlines topped the one billion dollar mark in assets at the close of a twelve-month period ending September 30, 1952. This represented a gain of 14.3 percent over the preceding year. Other features of the airline industry likewise showed considerable change. The total employment was up 11.8 percent over the previous year. The industry's average wage was \$4,452, an 8 percent increase; the annual payroll rose to \$469,767,459, an increase of 20.8 percent. During the same period, the airlines spent \$142,031,792 for gas and oil, a 20.2 percent increase.

OPERATING REVENUES OF DOMESTIC TRUNK AIRLINES, 1941-52



Source: *American Aviation*, Vol. 16, No. 24, April 27, 1953.

In 1952 the certified airlines in the United States grossed over \$1,120,000,000 in commercial operating revenues, transported some 28.5 million passengers, employed over 100,000 persons, operated 1,522 airplanes, and made the finest safety record in airline history to date. The American air transport industry is grossing more money than ever before (see chart), but the expenses are catching up with the revenues. The future presents some difficulties. This is due in large measure to the need for expansion. Possibly \$300 million worth of new aircraft are needed immediately, and between \$700 million and \$900 million will be needed, perhaps within the next five years, to meet the growing demands for jet transports. In order that future success may be assured, the airline executive must continue to improve on the progress of the present. He must face the complexities of the vast network of airlines. Some of these complexities are as follows:

In 1952, coach or tourist-type traffic constituted 18.8 percent of the total passenger-miles flown by the domestic trunk lines. Previously coach travel has been only a fraction of the total airline traffic. This leads many traffic executives to believe that the proportion may increase to as much as 30 percent in 1953. Others venture to think that the steady trend toward coach traffic will surpass first-class air travel in a comparatively few years.

The airlines last year began to follow the typical path of other forms of transportation. The number of domestic trunk carriers was reduced from 16 to 14 by the mergers in 1952, and a further reduction to 12 is likely during 1953. These mergers probably strengthen the industry, but from the standpoint of the airline operator they intensify competition. All but 4 of the present 14 trunkline carriers are free from subsidy, but from a management standpoint the main problem — the proper rate of return to the investor — remains.

The trend last year toward consolidation was apparent also in the domestic local service lines. One merger and the termination of two local carrier certificates lowered the number of such carriers to 15. Two merger cases now pending and one possible certificate termination could lower that number to 12 during the coming year. Some individual airlines showed profits, but the local service lines as a whole showed a net operating loss of \$953,048 for 1952.

The United States is represented in the international field by 12 lines, including two of the 11 carriers certified for trans-Atlantic service. In this field two important developments took place last year. One of these was the inauguration of large-scale coach or tourist service across the Atlantic, and the other was the inauguration of the jet-transport services by British Overseas Airways. Undoubtedly, during the coming year there will be an expansion of the trans-Atlantic coach services to points beyond the European gateways. It is probable, too, that there will be an enlargement of tourist operations in the Pacific area, and possibly an expansion of this type of service on a world-wide basis.

## Cargo and Special Services

Among the most recent developments in the all-cargo carrier field are a proposed merger of the Flying Tiger Line and Slick Airways, the certification of a new international cargo line, Aerovias Sud, and bids by six Ameri-



can companies for trans-Atlantic certificate rights. In 1951, the three domestic freight carriers, Slick, Flying Tiger, and U. S. Airlines, divided the traffic about evenly with the trunk-line carriers. During 1952 they slipped to about 46 percent of the total 221 million ton-miles of domestic air freight traffic. There is some indication that the United States is losing its position in the foreign cargo market to foreign carriers. This fact induced the Civil Aeronautics Board to reopen hearings looking to the possible certification of more all-cargo carriers on the trans-Atlantic cargo routes.

In the field of helicopter carriers, there is now a big question of policy: Should new companies or present operators of fixed-wing aircraft operate over helicopter routes? In the meantime, more than 30 applicants want the CAB to award additional helicopter certificates to virtually every large metropolitan area in the country. The three helicopter lines which are now operating in Chicago, Los Angeles, and New York seem to be doing very well.

There remain approximately 60 carriers in commercial markets on an irregular air-carrier basis. The greater part of the revenue in this field comes from the military carriage. This business probably will remain good for at least a year after any "cease fire" may take place in Korea.

It is probable that during the coming year the small irregular air carriers, now officially designated by the CAB as air taxi operators, will become considerably more stabilized. Of the 2,000 small operators who come under the CAB definition, probably only about half are actually engaged in offering air service. The majority of freight forwarders by air are unlicensed. Those who are licensed by the CAB as indirect air carriers are handicapped by two things: a lack of sufficient interest on the part of direct air carriers in aiding the development of the consolidated freight-shipment business, and the competition of forwarder-type organizations which operate outside the scope of the regulatory powers of the CAB.

## Aircraft Manufacturing

Despite the fact that the net earnings of the aircraft manufacturing industry continue to be considerably below those of comparable industries, aircraft builders have completed one of their most productive years and have earned the largest dollar profit — \$81.7 million — in their history. In general, the outlook is rather bright for the

immediate future of the industry. The increase in net profit per dollar of sales from 1951 to 1952 points up more efficient business management. The earnings on capital increased from eight cents on the dollar in 1951 to 18.3 cents in 1952, or the average earning per share increased from \$1.68 to \$3.98. Sales were up \$1.8 billion and were financed by only a \$33.9 million increase in net working capital. This indicated a more efficient use of the capital of the industry, with a turnover of 7.2 times in 1951 and 12.1 times in 1952. At first glance, a study of the totals for the leading aircraft companies would indicate that sales jumped 89 percent, whereas earnings after taxes skyrocketed 164 percent (see table). This, however, is something of a distortion.

The Glenn L. Martin Company in 1951 reported a net loss of more than \$22 million, but in 1952 they reported a return to the black side of the ledger with a net profit of \$5.8 million. If Martin's report is taken from the tabulations, the remaining companies had a sales increase of 88 percent, but their net profits went up only 43 percent. In the aggregate the industry did slightly better in 1952 than in 1951, calculating its net profits as a percentage of sales. The increase was from 1.6 percent in 1951 to 2.2 percent in 1952. This was an industry-wide gain in sales without a single company reporting a sales decline in 1952. As would be expected, employment by the aircraft companies increased substantially during the fiscal year. This reflects, also, the end of the tooling-up period and the beginning of large-scale production.

In spite of the increased deliveries of aircraft and engines, order backlogs kept going up. They rose by over \$2.5 billion, or somewhat more than a fifth. Eight companies of the industry reported backlogs in excess of \$1 billion, with Douglas and Lockheed pushing the \$2-billion mark. At least two additional companies, General Electric and General Motors, have aviation backlogs of over a billion dollars, but they do not separate their aviation orders as such.

Industrial leaders, however, are now worried about several things in the picture. They are concerned about the inability of the industry to meet its present debts because of inability to lay hold of quick assets. Also a considerable vulnerability to inventory losses is indicated since inventories are at a record high of \$531 million. At the year's end, the industry's creditors owned over 3 times as much of the business assets as did the stockholders. Some cause for worry also lies in the fact that company-owned plants and equipment are at their all-time high of \$154 million. With this investment approximately 40 percent greater than the highest World War II point, additional plant expansion could prove financially embarrassing in the event of declining production demands.

The half century since 1903 has been one of unparalleled development and progress in aviation as reflected by the two segments discussed here. The next half century may well eclipse the development of the past fifty years.

## Business Briefs

(Continued from page 7)

the windows close. When the grid dries, the windows automatically open. The new device can be regulated to respond to a fine mist or a heavy rain. The product will be within the range of new small home buyers, according to the manufacturer.

**FINANCIAL DATA FOR 12 MAJOR AIRFRAME COMPANIES, 1937-52**  
(Millions of dollars)

Year	Net sales	Net profits	Current assets	Current liabilities	Net working capital	Inventory	Net worth
1952.	3,731	82	1,251	943	308	531	448
1951.	1,979	31*	915	640	275	373	388
1950.	1,388	63	575	287	288	208	380
1949.	1,132	36	541	286	256	225	334
1948.	843	2	525	280	245	210	318
1947.	545	(42)	535	284	251	294	367
1946.	519	(11)	541	229	312	237	383
1945.	3,965	67	959	592	366	131	424
1944.	5,766	59	1,460	1,235	225	332	385
1943.	5,209	73	1,703	1,445	259	434	326
1942.	2,789	61	1,257	1,134	123	424	246
1941.	813	60	662	582	80	347	159
1940.	247	32	398	332	66	142	92
1939.	141	15	97	60	38	48	69
1938.	89	8	49	18	31	17	54
1937.	62	2	43	21	21	15	43

\* Reflects \$22 million loss by the Glenn L. Martin Company.  
Source: *American Aviation*, Vol. 16, No. 25, May 11, 1953.

# LOCAL ILLINOIS DEVELOPMENTS

Although most Illinois business indicators declined seasonally from March to April, many of them showed gains over the corresponding month of last year. Electric power production, bank debits, life insurance sales, and steel production were each up more than 12 percent over April, 1952, whereas department store sales, business loans, manufacturing employment, and average weekly earnings increased by a somewhat smaller margin. Construction contracts awarded were up 47 percent from March and 3 percent from the same month a year ago. Off both from April, 1952, and from March were coal production, farm prices received, cash farm income, and petroleum production.

## Workmen's Compensation Benefits

Maximum compensation benefits to injured Illinois workmen expressed as a percentage of average earnings have declined substantially since the Workmen's Compensation Law was first enacted forty years ago. According to a report in the *Illinois Labor Bulletin*, maximum compensation payments in 1912 were \$12 a week, or 98 percent of average weekly earnings in the United States. By October, 1952, earnings had risen to \$74.54, but maximum compensation benefits for a family with one child or no children were only \$25.50, or 34 percent of the Illinois laborer's wages. Although the percentage reimbursement of wage loss could, by law, be from 75 to 97.5 percent in Illinois (depending upon the number of children), low maximum rates have greatly reduced the percentage of wages recoverable by an injured employee.

Illinois is rated lowest among the first ten industrial states in allowance of weekly compensation rates. Furthermore, although the general trend in state compensation acts has been toward a reduction of the waiting period before benefits begin, Illinois workers must still wait six working days even though the standard work week has been shortened to five days.

## Employment Up Seasonally

Illinois nonfarm employment in mid-April totaled 3.4 million, 0.5 percent above the March level and 3.1 percent above April, 1952. This level for the State has been exceeded only once, in December, 1952. Manufacturing employment declined fractionally from March to April after increasing for eight consecutive months. But despite the seasonal decreases in both durable and nondurable goods, manufacturing employment was 7 percent above that of the same month a year ago. Seasonal increases in non-manufacturing industries more than offset the slight decline in manufacturing employment with contract construction, up 10 percent from March, leading the gain.

## Insects Threaten Prospects for Good Crops

Although planting in some of the southern Illinois counties has been delayed by rains, about 90 percent of the corn crop and over 70 percent of the State's soybeans were in the ground on June 1. Some red clover had been cut in the southernmost counties by the first week in June and the harvest of alfalfa had started in the central area. In general, wheat is in excellent condition and rye and winter barley were ripening as far north as Greenville. However, the insect threat to Illinois crops has already become serious in some parts of the State. Flea beetles have attacked the corn crop unusually early; chinch bugs,

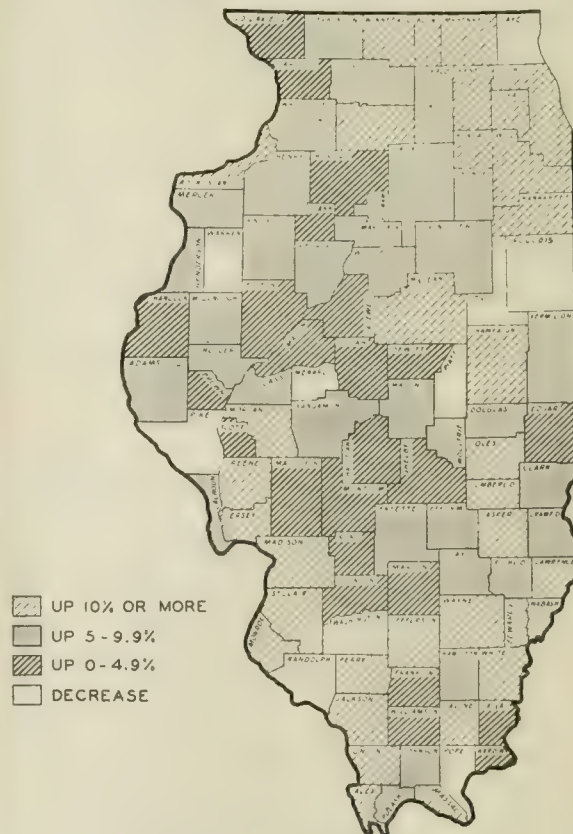
wire worms, and cut worms have been reported from widely scattered areas. Wheat is being attacked by army worms in some southern counties and red clover has been seriously damaged by the clover leaf weevil, aphids, and the spittlebug.

## Illinois Retail Sales

In contrast to the nation as a whole, March retail sales in Illinois — estimated at \$894 million — rose 10 percent above the February level and 12 percent above March of last year. Retail sales in the United States declined 1 percent from February to March and gained 11 percent over March, 1952. Registering the greatest increase over the same month a year ago were automobile sales, up 41 percent in Illinois, with filling stations concomitantly reporting a 25 percent increase. Sales of apparel and building supply firms showed the largest percentage rises over February, chiefly as the result of seasonal demands.

During the first quarter of 1953, total retail sales in Illinois reached \$2.5 billion, 9 percent higher than in the corresponding period of the previous year. Only four counties reported gains of 20 percent or more over the same quarter in 1952: Lawrence, up 36 percent; Du Page, up 22 percent; and Will and Winnebago counties, each up 20 percent. Losses occurred in ten counties (see chart) with Lake County — off 11 percent — reporting the greatest decline. Downstate Illinois (up 8 percent) did not quite equal the gain made by Cook County, where estimated retail sales rose 10 percent.

RETAIL SALES IN ILLINOIS  
Percent Change, 1st Qtr., 1952-1st Qtr., 1953



Source: Illinois Department of Revenue.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

April, 1953

		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b>		<b>\$25,916<sup>a</sup></b>	<b>952,337<sup>a</sup></b>	<b>\$571,025<sup>a</sup></b>		<b>\$12,628<sup>a</sup></b>	<b>\$13,074<sup>a</sup></b>
Percentage Change from...	Mar., 1953	+19.1	-3.9	+12.2	+5	-11.6	-2.5
	Apr., 1952	+3.0	+6.8	+15.5	+2	+12.3	+6.8
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b>		<b>\$16,522</b>	<b>741,461</b>	<b>\$418,788</b>		<b>\$11,567</b>	<b>\$11,367</b>
Percentage Change from...	Mar., 1953	+12.3	-5.1	+11.6	+5	-12.1	-2.3
	Apr., 1952	-12.0	+7.0	+14.8	+3	+12.6	+7.4
<b>Aurora</b>		<b>\$ 240</b>	n.a.	<b>\$ 8,106</b>		<b>\$ 46</b>	<b>\$ 101</b>
Percentage Change from...	Mar., 1953	-49.4		+16.6	+13	-6.8	+1.7
	Apr., 1952	-8.7		+20.1	-3	+15.8	+18.2
<b>Elgin</b>		<b>\$ 427</b>	n.a.	<b>\$ 5,660</b>		<b>\$ 27</b>	<b>\$ 89</b>
Percentage Change from...	Mar., 1953	+9.2		+14.9	+9	-2.8	-8.4
	Apr., 1952	+33.9		+21.1	-2	+10.1	-0.7
<b>Joliet</b>		<b>\$ 677</b>	n.a.	<b>\$12,273</b>		<b>\$ 60</b>	<b>\$ 88</b>
Percentage Change from...	Mar., 1953	+75.8		+15.1	+4	-3.5	+17.3
	Apr., 1952	-32.6		+25.6	+11	+21.5	+16.3
<b>Kankakee</b>		<b>\$ 191</b>	n.a.	<b>\$ 5,629</b>		n.a.	<b>\$ 32</b>
Percentage Change from...	Mar., 1953	+75.2		+9.5	n.a.		-1.9
	Apr., 1952	-26.5		+24.0			+6.3
<b>Rock Island-Moline</b>		<b>\$1,262</b>	<b>20,537</b>	<b>\$10,643</b>		<b>\$ 82<sup>b</sup></b>	<b>\$ 162</b>
Percentage Change from...	Mar., 1953	+183.0	+4.8	+7.9	n.a.	-0.8	+8.7
	Apr., 1952	+23.4	+15.6	+18.9		+10.7	+19.7
<b>Rockford</b>		<b>\$1,067</b>	<b>33,308</b>	<b>\$17,924</b>		<b>\$ 135</b>	<b>\$ 196</b>
Percentage Change from...	Mar., 1953	+55.1	+2.2	+14.0	+3	-10.1	-10.0
	Apr., 1952	+37.7	+21.9	+19.8	+6	+11.5	-4.9
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b>		<b>\$ 364</b>	<b>6,722</b>	<b>\$ 7,549</b>		<b>\$ 55</b>	<b>\$ 133</b>
Percentage Change from...	Mar., 1953	+167.6	+2.7	+50.2	n.a.	-8.2	-5.4
	Apr., 1952	-13.7	+10.8	+53.7		+22.4	-13.3
<b>Champaign-Urbana</b>		<b>\$ 238</b>	<b>8,312</b>	<b>\$ 7,812</b>		<b>\$ 53</b>	<b>\$ 98</b>
Percentage Change from...	Mar., 1953	+140.4	-0.6	+9.9	n.a.	+1.5	+5.4
	Apr., 1952	+60.8	+3.0	+17.3		+4.2	+21.3
<b>Danville</b>		<b>\$ 491</b>	<b>8,027</b>	<b>\$ 6,338</b>		<b>\$ 39</b>	<b>\$ 52</b>
Percentage Change from...	Mar., 1953	+513.8	-1.8	+20.9	+2	-4.0	-6.6
	Apr., 1952	+261.0	+6.2	+12.4	-2	+1.6	+0.4
<b>Decatur</b>		<b>\$ 709</b>	<b>21,560</b>	<b>\$10,357</b>		<b>\$ 84</b>	<b>\$ 107</b>
Percentage Change from...	Mar., 1953	+90.6	-0.5	+17.9	+8	-9.3	1.1
	Apr., 1952	+147.0	+2.0	+20.0	-6	+8.6	+1.6
<b>Galesburg</b>		<b>\$ 221</b>	<b>6,526</b>	<b>\$ 4,184</b>		n.a.	<b>\$ 33</b>
Percentage Change from...	Mar., 1953	+82.6	+2.6	+11.7	n.a.		-0.8
	Apr., 1952	+100.9	+12.9	+11.8			+4.1
<b>Peoria</b>		<b>\$1,119</b>	<b>45,333<sup>c</sup></b>	<b>\$18,012</b>		<b>\$ 190</b>	<b>\$ 205</b>
Percentage Change from...	Mar., 1953	-51.1	+0.7	+10.5	+2	-3.8	-7.9
	Apr., 1952	+99.1	-3.5	+7.0	+3	-0.3	+0.4
<b>Quincy</b>		<b>\$1,037</b>	<b>7,139</b>	<b>\$ 4,958</b>		<b>\$ 35</b>	<b>\$ 66</b>
Percentage Change from...	Mar., 1953	+1,402.9	+4.4	+12.4	+2	-1.5	-6.7
	Apr., 1952	+348.9	+6.8	+12.7	-3	+8.8	-10.0
<b>Springfield</b>		<b>\$ 558</b>	<b>24,617<sup>c</sup></b>	<b>\$13,898</b>		<b>\$ 94</b>	<b>\$ 219</b>
Percentage Change from...	Mar., 1953	-22.1	-3.7	+13.9	n.a.	-3.3	-10.9
	Apr., 1952	+80.0	+2.7	+16.6		+16.5	+6.3
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b>		<b>\$ 536</b>	<b>12,924</b>	<b>\$ 9,569</b>		<b>\$ 128</b>	<b>\$ 60</b>
Percentage Change from...	Mar., 1953	+29.8	+4.5	+3.6	n.a.	7.1	-7.7
	Apr., 1952	+137.2	+5.1	+11.7		+4.2	+10.1
<b>Alton</b>		<b>\$ 170</b>	<b>10,887</b>	<b>\$ 4,939</b>		<b>\$ 33</b>	<b>\$ 29</b>
Percentage Change from...	Mar., 1953	+0.6	-3.5	+7.4	n.a.	-5.8	-5.9
	Apr., 1952	-28.6	+5.5	+15.8		+18.7	+7.0
<b>Belleville</b>		<b>\$ 87</b>	<b>4,984</b>	<b>\$ 4,386</b>		n.a.	<b>\$ 37</b>
Percentage Change from...	Mar., 1953	-5.4	-4.8	+12.5	n.a.		-5.3
	Apr., 1952	+40.3	+0.8	+12.8			-16.8

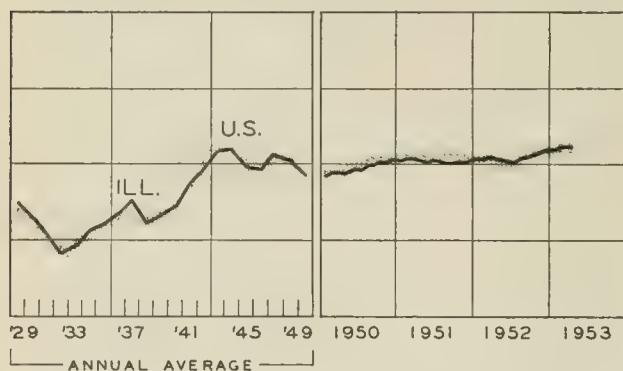
<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.

Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for March, 1953, the most recent available. Comparisons relate to February, 1953, and March, 1952. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

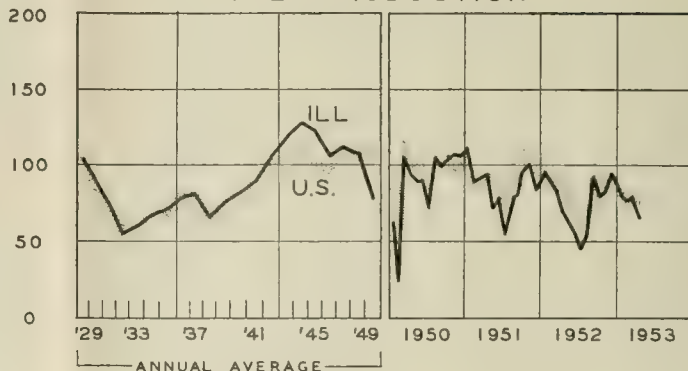
# INDEXES OF BUSINESS ACTIVITY

1947-1949=100

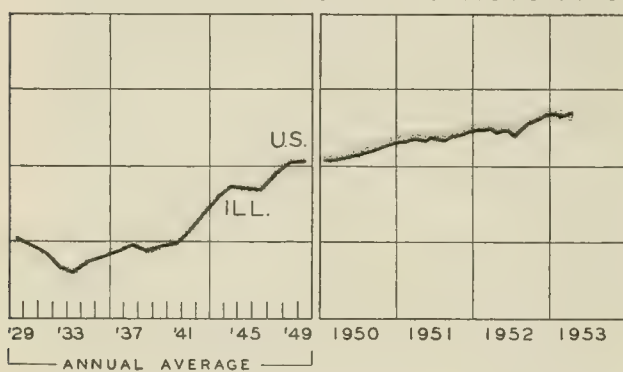
## EMPLOYMENT - MANUFACTURING



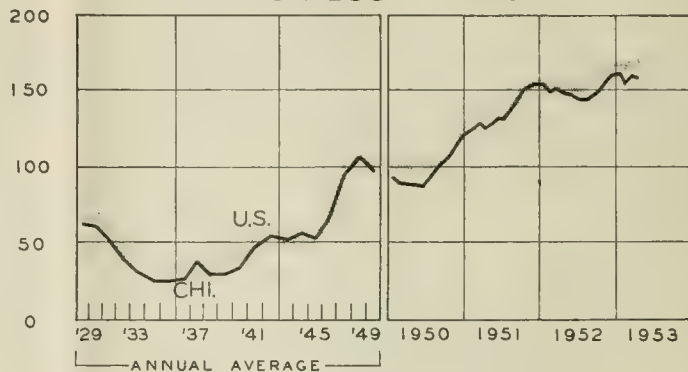
## COAL PRODUCTION



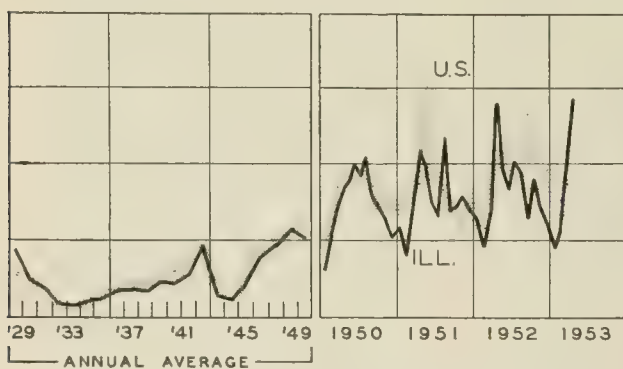
## AVG. WKLY. EARNINGS - MANUFACTURING



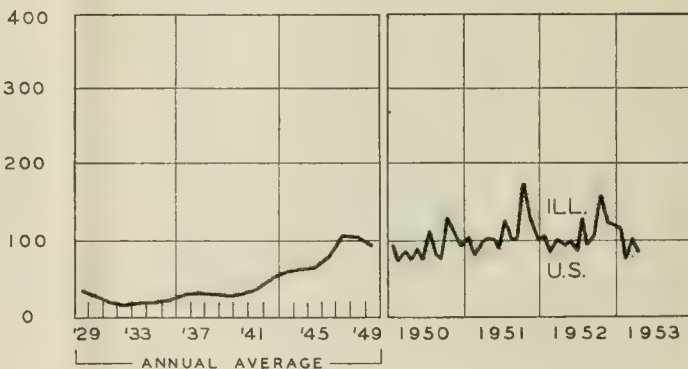
## BUSINESS LOANS



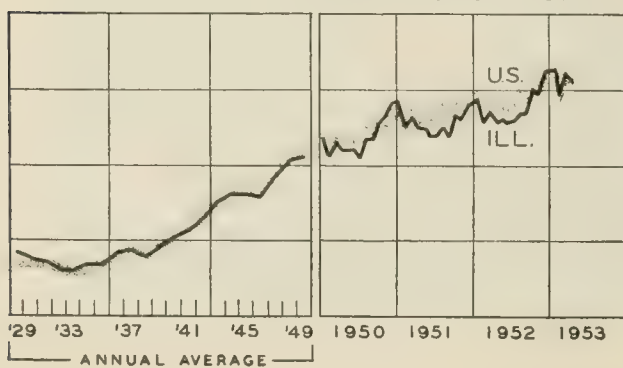
## CONSTRUCTION CONTRACTS AWARDED



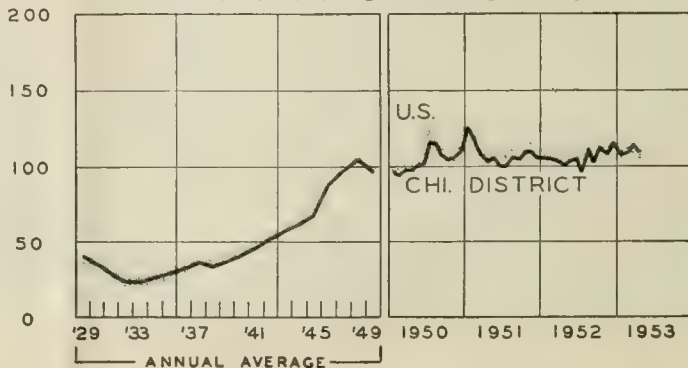
## CASH FARM INCOME



## ELECTRIC POWER PRODUCTION



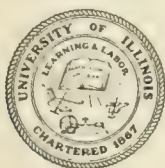
## DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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NUMBER 7

## HIGHLIGHTS OF BUSINESS IN JUNE

Industrial production in June showed little change from the level of the two preceding months. At 241 percent of the 1935-39 average, the Federal Reserve index of industrial production remained two points below the postwar high of 243 reached in March.

Individual industries, however, continued to operate at peak rates. Electric power output, a key indicator of industrial activity, reached a new high during the month. Freight carloadings, another basic indicator, ran well ahead of the May level, and in some weeks of June exceeded last year's figures by more than 25 percent. Steel output this June, at 9.4 million tons, was the highest on record for the month. Motor vehicle production exceeded 650,000. Production of passenger cars during the first half of this year totaled a record 3.2 million. In television, another booming industry, producers turned out a record 3.8 million sets during the first half of the year, as compared with 2.3 million in the first six months of last year.

Retail trade continued to exceed last year's level. Department store sales in June averaged 5 percent above the levels of June of last year with chain-store and mail order sales also generally higher.

### Labor Force Expands

Over 63 million people were employed during June, a new high. This was a rise of 1.5 million from the previous month and was largely caused by the annual entrance of students into the labor force. All of the increase was registered in agricultural employment, as farm operators attempted to make up for bad weather earlier in the season. Nonfarm employment remained steady at the May figure of 55.2 million as the number of students taking nonfarm jobs was offset by school employees without work for the summer.

Unemployment rose by 250,000 to 1.6 million. The rise was largely seasonal, as some of the students looking for jobs were unable to find any. Unemployment was somewhat higher last June—1.8 million—though the labor force at that time was slightly lower.

### Business Inventories Increase

Inventory holdings of American businessmen rose to a record high of \$77 billion at the end of May. This is about \$4 billion more than the value of stocks on hand a year earlier and about \$650 million above the April level after adjustment for seasonal variation. However,

these record holdings are not considered excessive by government economists as the ratio of stocks to sales, at 1.6, was no higher than last May. In other words, at the level of sales prevailing in May, stocks were equivalent on the average to only 1.6 months' sales.

Most of the increase in inventory holdings from the April level occurred among manufacturers, principally among television, heating, automotive parts, and petroleum producers. Retailers' and wholesalers' inventories rose slightly, the former on the strength of higher holdings of nondurable goods stores.

### Construction Outlays at New Peaks

Expenditures on new construction in June advanced 9 percent to a new high for the month of \$3.2 billion. This was 8 percent more than in June of last year. Outlays for private residential building reached the highest figure since November, 1950. At the same time, expenditures on commercial building and on public utilities were at an all-time high.

Construction expenditures for the first half of this year also reached a new peak at \$16 billion, nearly 8 percent higher than in the first half of last year. Commercial construction in particular rose sharply, by 43 percent, partly because of the relaxation of credit and materials controls last fall; the advance largely reflects emphasis on construction of new shopping centers. Home-building, public utility construction, highway expenditures, and military construction all reached peak values for the period.

### Gross National Product Rises

The value of the nation's output of goods and services increased to a new high of \$368 billion at annual rates during the second quarter, according to preliminary estimates of the Joint Economic Committee of Congress. This represents an increase of \$5 billion over the first-quarter figure and of \$25 billion over the second quarter of last year (all at annual rates). The increases largely represent higher physical levels of production, as prices have remained fairly steady during the last year.

Increased private domestic investment accounted for most of the increase from the first quarter, rising nearly \$4 billion to \$58 billion at an annual rate. Government expenditures were also up, as a result of increased outlays for national security, and consumer expenditures rose slightly.

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# ILLINOIS BUSINESS REVIEW

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## Too Soon and Too Little

The business forecasters have been growing progressively more pessimistic during the past year. They are now nearly unanimous in predicting that a decline will get underway within a matter of months. But—and this makes it a curious kind of "pessimism"—most expect the decline to be very moderate and short-lived. Altogether, it is a consensus that seems to misinterpret both the strengths and the weaknesses of our economy.

### Another Good Year Ahead

Partly responsible for these views is the feeling that things are moving just too fast. Such a feeling seems to develop whenever past experience is so far exceeded that the standards by which we have been accustomed to judging things no longer seem to apply.

In any such situation, the feeling that sooner or later we must return to "normal" can be bolstered by specific reasons for believing that one or another part of the economy is overextended. Foremost among these particulars at the present time is the high level of auto sales and the expansion of consumer credit. Others are defense expenditures, business outlays for new plant and equipment, and residential construction. The arguments supporting forecasts of declines in these segments have been so widely publicized that it may be worth a few minutes time to point out that there are arguments on the other side too.

Last month we attempted to show why the auto situation poses no threat to the economy. The special article in this issue relates consumer credit expansion to the improved financial position of consumers and suggests that it is the high volume of durable goods rather than the credit used to finance them that makes for instability.

With reference to the military program, the public has been given a wholly misleading impression by the debate over appropriations for the Defense Department, and particularly for the Air Forces. Senator Taft felt it necessary to try to set the record straight by pointing out that appropriations are not expenditures. The fact is that funds now available amount to about three times the annual rate of deliveries. Military spending will probably fall off only a little by next June even if a truce in Korea is signed quickly; and there can be no assurance that new international developments will not again accelerate the pace of rearmament.

Even assuming a minimum pattern of military spend-

ing, government programs in the aggregate will probably tend to raise the level of business activity in 1954. State and local government expenditures will rise about as fast as Federal expenditures are likely to fall. In addition, the tax reductions now definitely promised for 1954 will provide a stimulus to private spending throughout the economy.

Predictions of declines in capital outlays by business have been repeated, and their timing has been consistently pushed ahead, for the past two years. Such expenditures are, however, currently reaching new peaks, and there is no letdown in sight. (See "Capital Investment Plans," p. 5.) Businessmen see almost unlimited opportunities for expansion in the future and are willing to risk a temporary setback in order to have capacity for the greater growth ahead.

One reason for the failure of predictions in this sector is that over-all activity has consistently been higher than expected. The lesson of this for the coming year would seem to be that if activity remains high, capital expenditures will remain high. Though the absolute peak will not necessarily be held, this sector is not likely to be the source of any important recession.

Homebuilding is also supposed to be in the declining phase of its cycle. It should be kept in mind, however, that it is a long cycle, and the rate of decline during any year of prosperity will in all probability be quite limited.

Recent data show that large declines in household formation have already taken place and that further declines may be expected. However, only in 1950, under the spur of a war scare, was the volume of building as high as the peak rate of family formation. In the other years prior to 1950, households were formed without the benefit of new dwelling units. Among the units added to create all those new households were some 3 million temporary or converted units. In addition, there are about again as many other units now in use which, if not already dilapidated and substandard, ought to be replaced within another decade at the most. As long as incomes remain high, the American people will go on improving their housing standards. Hence, the decline in family formation by no means provides an adequate measure of the housing market. There is no necessity for that market to fall below a million units in 1954, or for that matter, in 1955.

Let's concede that this is a difficult situation to forecast. One reason why this is so is that it doesn't provide any good basis for pessimistic predictions about fiscal 1954. Even though the odds seem to favor some small decline from the recent extreme high, rather than any further advance, our best guess is that conditions in the second quarter of 1954 will be pretty much as prosperous as they are now.

### When Depression Comes

It may be worth the time, also, to take a brief look at the optimistic note underlying the recent "pessimistic" predictions. Just how much warrant is there for the idea that a recession, when it does come, will be moderate and short-lived?

Analysis suggests that if the immediate forecast is suspect, the prediction of quick recovery to follow is even more so. There are no points of strength in the private economy capable of halting a decline or promoting an early recovery. Once production falls, capacity will be excessive, and new investment will not be needed in anything like the present volume. Once unemployment

(Continued on page 6)



### AUTOS AND AUTOMOTIVE EQUIPMENT

The automobile, first invented in Europe in 1886, has become an integral part of the American scene. The effects of the auto have been felt in almost every aspect of our lives. Both homes and workplaces have been located outside the crowded cities because the auto has made swift transportation available to persons in all walks of life. It is no longer necessary for the average person to live within a few miles of his place of employment. In addition, thousands of jobs and many industries owe their existence to the automobile, and many others have felt sweeping changes as a result of the auto.

#### Manufacturing Operations

This State's economy is tied closely to the automobile and the innumerable activities related to its production and use. Motor vehicle and parts manufacturers in Illinois employed over 15,000 workers in 90 establishments during 1947. These factories ranged in size from the tiny Derby Midget Car Company of Woodstock, with six employees, to the Ford assembly plant in Chicago with over 3,000 employees. Most of the remaining 12,000 workers are employed in small and medium-sized plants which manufacture spark plugs, timing gears, gaskets, and other automotive parts for the larger automobile and truck manufacturers or for replacement purposes.

The 32 establishments engaged in the fabrication of truck and bus bodies employed an additional 2,500 workers in 1947. Although a few of these firms, such as Anthony Company of Streator and Gar Wood and Diamond T of Chicago, employ several hundred people, most of the firms in this line have fewer than 100 workers. Geographically, the industry is spread throughout the State but is concentrated most heavily in northern and central Illinois.

Another branch of manufacturing that has been brought into existence by the automobile is the house trailer industry. The modern trailer offers almost all the facilities of a conventional house, and the industry has continued active despite the increased availability of permanent living quarters. To a lesser extent, other important industries in Illinois have felt the effects of the auto. Among these are the petroleum, cement, and steel industries, which sell large quantities of their products for use by auto owners, auto producers, and for street and highway construction.

#### Keeping Our Cars Rolling

In Illinois, employment in other activities related to the automobile far exceeds that in manufacturing as such. Included in the largest group of such workers are those engaged in selling and servicing automotive equipment. In 1948, almost 100,000 persons were employed as automobile or truck salesmen, mechanics, and service station attendants.

Currently, there is a widespread feeling that a slump in new car sales lies ahead. Since this decline would not affect the activities needed to keep our cars rolling to anything like a corresponding degree, Illinois producers can take encouragement in the fact that a large propor-

tion of the postwar cars now on the roads will soon reach their "service years" when parts and equipment need replacing. It is possible, therefore, that parts and accessory sales will increase even if new car and truck sales decline. Since a large part of the production of Illinois firms consists of replacement parts, the outlook for Illinois producers seems to be better than that for the industry as a whole.

Another group with prospects of a never-ending job are the 15,000 workers engaged in building and maintaining State, county, and local roads. The vast network of roads spanning the State was mostly in place a quarter century ago, so that its age imposes a heavy maintenance burden; and at the same time the growth in the car and truck population makes improvement and expansion of the road system imperative.

#### Moving the State's Products

In addition to all these, there are about 233,000 truck drivers, bus drivers, and related workers in Illinois. Altogether, about 400,000 of the State's residents are employed directly as a result of the automobile, including thousands engaged in the manufacture of tires, tools, and testing equipment.

Others not directly employed in such activities have been affected to varying degrees by the mobility that the automobile provides. This is exemplified by the greater speed and efficiency of farm marketing and of rural business life in general. Rare indeed is the farm in Illinois which is not within a few hours' drive of a major agricultural marketing or rail center. Shopping from mail-order catalogues is no longer the necessity for most farmers that it was years ago. Less than an hour's drive will put the average farmer in a shopping center of reasonable size.

Illinois farmers have taken advantage of the benefits offered by the auto and truck to a greater extent than have farmers in the United States as a whole. Over 80 percent of the farms in Illinois have at least one car as compared with less than 65 percent for the nation as a whole. Over 40 percent of Illinois farms own at least one truck as compared with less than 35 percent nationally.

Nonfarm producers in Illinois also rely on highway transportation to maintain the flow of materials to their plants and to distribute their products to the nation's markets. In spite of the fact that Illinois is well equipped with railroad facilities, there are over 370,000 trucks and almost 10,000 buses registered in Illinois, most of which are used for industrial, agricultural, or commercial purposes.

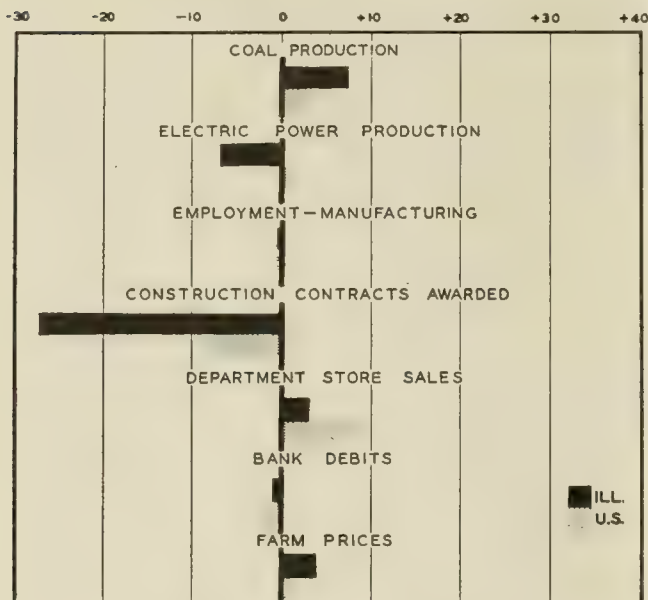
In addition, the strategic location of the State near the center of the national economy ensures a heavy flow of traffic across the State. This traffic flow in turn generates service and maintenance demands which supplement those of the State's residents. As long as the nation's economy continues to grow, there will be expanding markets for the automotive equipment and related goods and services produced in Illinois.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes April, 1953, to May, 1953



## ILLINOIS BUSINESS INDEXES

Item	May 1953 (1947-49 = 100)	Percentage Change from	
		April 1953	May 1952
Electric power <sup>1</sup> .....	144.4	- 6.7	+10.2
Coal production <sup>2</sup> .....	69.7	+ 7.4	+12.1
Employment—manufacturing <sup>3</sup> ...	112.3	- 0.4 <sup>a</sup>	+ 6.8 <sup>b</sup>
Payrolls—manufacturing.....	n.a.		
Dept. store sales in Chicago <sup>4</sup> ...	108.0 <sup>c</sup>	+ 2.9	+ 4.9
Consumer prices in Chicago <sup>5</sup> ...	114.6	+ 0.4	+ 0.3
Construction contracts awarded <sup>6</sup>	208.3	-27.2	+ 9.3
Bank debits <sup>7</sup> .....	143.2	- 0.8	+10.4
Farm prices <sup>8</sup> .....	105.9	+ 3.8	- 7.8
Life insurance sales (ordinary) <sup>9</sup> ...	154.0	- 5.3	+20.6
Petroleum production <sup>10</sup> .....	92.1	+ 2.7	+ 3.5

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.  
<sup>a</sup> March, 1953, to April, 1953. <sup>b</sup> April, 1952, to April, 1953.  
<sup>c</sup> Seasonally adjusted. n.a. Not available.

## UNITED STATES MONTHLY INDEXES

Item	May 1953	Percentage Change from	
		April 1953	May 1952
Personal income <sup>1</sup> .....	283.8 <sup>a</sup>	+ 0.4	+ 6.6
Manufacturing <sup>1</sup> .....			
Sales.....	315.6 <sup>a</sup>	- 1.9	+13.4
Inventories.....	45.0 <sup>a, b</sup>	+ 0.9	+ 4.4
New construction activity <sup>1</sup> .....			
Private residential.....	11.8	+ 8.5	+ 7.0
Private nonresidential.....	11.9	+ 8.4	+11.6
Total public.....	11.2	+13.2	+ 0.1
Foreign trade <sup>1</sup> .....			
Merchandise exports.....	n.a.		
Merchandise imports.....	n.a.		
Excess of exports.....	n.a.		
Consumer credit outstanding <sup>2</sup> .....			
Total credit.....	26.7 <sup>b</sup>	+ 2.1	+23.1
Installment credit.....	20.1 <sup>b</sup>	+ 2.2	+31.2
Business loans <sup>2</sup> .....	22.8 <sup>b</sup>	- 1.3	+10.3
Cash farm income <sup>3</sup> .....	23.3	+ 2.5	- 9.2
Indexes (1947-49 = 100)			
Industrial production <sup>2</sup> .....			
Combined index.....	130 <sup>a</sup>	0.0	+14.2
Durable manufactures.....	148 <sup>a</sup>	- 1.8	+15.5
Nondurable manufactures.....	117 <sup>a</sup>	+ 1.5	+11.0
Minerals.....	114 <sup>a</sup>	+ 1.8	+19.3
Manufacturing employment <sup>4</sup> .....			
Production workers.....	113 <sup>a</sup>	+ 0.2	+ 7.7
Factory worker earnings <sup>4</sup> .....			
Average hours worked.....	102	- 0.5	+ 1.0
Average hourly earnings.....	132	0.0	+ 6.1
Average weekly earnings.....	134	- 0.5	+ 7.1
Construction contracts awarded <sup>5</sup> .....	210	- 7.8	+ 2.7
Department store sales <sup>2</sup> .....	116 <sup>a</sup>	+ 8.4	+ 7.4
Consumers price index <sup>4</sup> .....	114	+ 0.3	+ 0.9
Wholesale prices <sup>4</sup> .....			
All commodities.....	110	+ 0.4	- 1.6
Farm products.....	98	+ 0.6	- 9.3
Foods.....	104	+ 1.2	- 3.9
Other.....	114	+ 0.3	+ 0.4
Farm prices <sup>3</sup> .....			
Received by farmers.....	97	+ 0.8	-10.9
Paid by farmers.....	106	0.0	- 4.3
Parity ratio.....	94 <sup>c</sup>	+ 1.1	- 6.9

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1953					1952
	June 20	June 13	June 6	May 30	May 23	June 21
Production:						
Bituminous coal (daily avg.).....	1,644	1,558	1,523	1,609	1,464	1,316
Electric power by utilities.....	8,329	8,245	8,096	7,956	8,013	7,254
Motor vehicles (Wards).....	158.5	155.8	123.8	114.0	151.6	119.2
Petroleum (daily avg.).....	6,381	6,387	6,318	6,265	6,269	6,063
Steel.....	135.9	137.4	139.8	140.8	140.1	15.6
Freight carloadings.....	813	797	775	787	770	644
Department store sales.....	111	112	118	97	112	98
Commodity prices, wholesale:						
All commodities.....	109.3	109.6	109.7	109.8	109.9	111.2
Other than farm products and foods.....	113.5	113.5	113.5	113.5	113.6	112.6
22 commodities.....	86.4	87.5	88.1	88.2	88.4	96.9
Finance:						
Business loans.....	22,985	22,732	22,690	22,836	22,965	20,946
Failures, industrial and commercial.....	167	167	217	168	156	151

Source: Survey of Current Business, Weekly Supplements.



# RECENT ECONOMIC CHANGES

## Capital Investment Plans Continue High

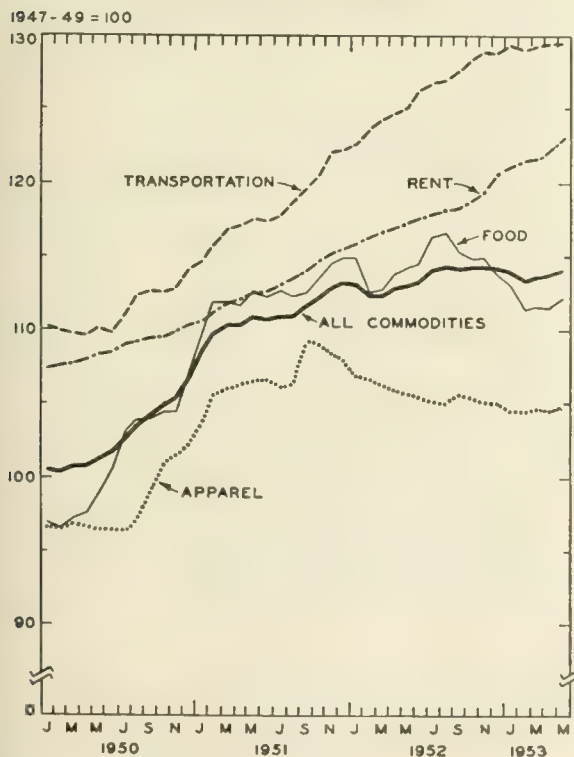
Unless businessmen change their investment plans between now and the third quarter of this year, expenditures for plant and equipment will total a record \$20.5 billion for the first nine months of 1953. Capital outlays amounted to \$6.1 billion in the first quarter of 1953, and are scheduled at \$7.2 billion for the second quarter and \$7.1 billion for the third, according to the latest survey of capital expenditures conducted jointly by the Department of Commerce and the Securities and Exchange Commission. At seasonally adjusted annual rates, this amounts to \$28.1 billion for the first three quarters of 1953, compared with \$26.5 billion in 1952.

According to the survey, public utilities plan the biggest increase over last year. Capital investment expenditures by this group are scheduled at \$3.3 billion for the first nine months of 1953, about one-fifth more than in the same period last year. Manufacturing industries plan a 7 percent increase, with larger increases for non-durable goods industries than for durables. Railroads expect slightly increased expenditures whereas other industries anticipate slight declines or no change in capital investment.

## Consumer Prices Up

Consumer prices moved up slightly in May for the third month in succession. The latest advance amounted to 0.3 percent and raised the all-commodities index to 114 percent of the 1947-49 average. This is 1 index point above prices in May, 1952, but is lower than the general level of consumer prices in the second half of 1952. The May advance was chiefly attributable to higher food and medical care costs, although all other major commodity groups, except transportation, moved up slightly.

CONSUMER PRICES



Source: Bureau of Labor Statistics.

Despite divergent movements in the main components of the index, consumer prices, on the average, remained fairly stable during the past twelve months. As shown by the accompanying chart, the all-commodities index has fluctuated within the narrow limits of about 1 point since May, 1952. The apparel, personal care, and reading and recreation components of the index have leveled off or risen only slightly since May, 1952, whereas transportation, medical care, and housing costs continued to move up, with the increase in housing chiefly due to rising rental rates.

These advances were offset during the period by substantially lower food prices. As shown in the chart, the index of food prices fell from a peak of 116.6 percent of the base period in August of 1952 to 111.5 percent in February. Since February, food prices have risen slightly, as the seven-month decline in meat prices slowed in February and March and was offset by higher prices for other foods. A 7 percent increase in the price of pork was mainly responsible for the over-all increase in food prices in May.

## Students Swell Labor Force

Mainly because of the usual summer increase in student jobholders, the number of persons employed in June was up by 1.5 million to 63.2 million. This was about 600,000 higher than June, 1952, but over half of the increase may be attributed to a change in Census procedures, which revised the series upward by 360,000 at the beginning of this year. Increased farm employment accounted for the June advance, representing the first marked rise in agricultural employment since the start of the year. Unfavorable weather conditions had retarded farm operations in many parts of the country earlier in the season. Nonfarm employment was down somewhat in June as an increase in the number of student nonfarm workers failed to offset the seasonal drop in school employees.

Unemployment advanced 250,000 during the month, but the advance resulted from students who were unable to find summer and post-graduation jobs. According to the Census Bureau unemployment of adults over 25 did not change significantly from the previous month. Census data in thousands of workers are as follows:

	June 1953	May 1953	June 1952
Civilian labor force.....	64,734	62,964	64,390
Employment.....	63,172	61,658	62,572
Agricultural.....	7,926	6,390	8,170
Nonagricultural.....	55,246	55,268	54,402
Unemployment.....	1,562	1,306	1,818

## Foreign Gold and Dollar Assets Improved

United States exports remained relatively low in the first quarter of 1953, as import restrictions continued in Western Europe and were tightened in some Latin American countries. Imports by the United States continued high. As a result, the export balance on goods and services fell to \$100 million, as compared with over \$1 billion a year ago. Since private gifts and government loans and grants to foreign countries amounted to \$850 million, foreign countries improved their gold and dollar assets by \$750 million in the first three months of the year. This is in contrast to the corresponding period of 1952 when foreign nations had to draw on their gold and dollar assets by over \$400 million.

For the twelve-month period ended in March, the total increase in foreign gold and dollar assets amounted to \$2.3 billion. This was approximately equal to net government loans and economic grants, indicating that the rest of the world, although not necessarily individual countries, had approximately balanced their transactions with the United States aside from government assistance. The increase in foreign reserves substantially improved the economic strength of foreign nations, enabling them to expand multilateral trade.

## Machine Tool Orders Off

The index of new orders for machine tools, which fell 15 percent in April, was off another 10 percent in May. Civilian orders for new tools remained high in both months, but did not increase enough to offset further declines in new orders for tools for defense use. Machine tool shipments also declined in April and May (see chart), but the May drop, which was contrary to the usual seasonal movement, was attributed to nondelivery of several big items which were in production last month but which required longer periods for completion.

Paradoxically, the April and May declines in new business were accompanied by further expansion of the industry's productive facilities, which carried machine tool capacity to its highest level in history. Plant and equipment installations put in place this year were planned months earlier when unfilled order backlogs amounted to more than a year's work, and defense orders, though declining, were still near record levels. No additional expansion has been scheduled since the end of last year.

## Factories Maintain Overtime Work

Factory workers averaged 40.6 hours of work a week in May, as many industries continued to operate on an overtime basis. The May workweek, down slightly from April, equaled the postwar high for the month reached

in May, 1951. It was almost a half hour longer than in May, 1952, when slackened activity in consumer goods industries and industrial disputes in steel and petroleum reduced factory hours. Nearly 7 million workers, half the nation's factory labor force, worked 41 to 43 hours during May, with most of the overtime work concentrated in durable goods industries.

Average hourly earnings in manufacturing, including overtime and other premium pay, continued at a record \$1.75 in May, 10 cents an hour higher than in the same month last year. Virtually all of the increase occurred in the second half of 1952. Wages have remained relatively stable during the first part of this year, rising only one cent since January. These figures do not, of course, reflect wage increases granted automobile and steel employees in June.

## Too Soon and Too Little

(Continued from page 2)

rises, the people will have neither the inclination nor the credit standing to keep on building new houses. Nor will there be any large backlogs of demand for autos or other consumer durable goods to keep their spending high.

Some cite a continuing high level of military spending as a long-term prop supporting the economy. This, however, seems a little like having it both ways. If military spending is going down, the decline will depress activity. It may be that it is going down only a little, and so will tend to depress activity only a little. But however small the effect, it will be on the downside.

Reliance is also placed on the "built-in stabilizers" that will tend to sustain income during a decline. Taxes are high, and fall off more rapidly than income during a decline. Purchasing power will also be sustained to some extent by unemployment compensation and relief payments; but these again can compensate only a fraction of the decline in income. Basically, the effect of all these offsetting factors is to mitigate rather than to stop a decline. It may well be that consumer income will be maintained to the extent of half of any decline in investment or other expenditures; but all this implies is that the decline will cumulate at a slower rate.

What we have to fall back on, then, is action under the Employment Act of 1946. There is, however, little prospect that such action could anywhere near compensate large declines in other parts of the economy. The Administration and Congress show neither the desire to take drastic positive action nor the determination to do so in the face of mounting deficits. Any public works undertaken to counter a decline will almost certainly be too little and too late. Tax rates will be reduced further but this will merely leave more funds available to people who don't want to spend all they already have; it will aggravate the Federal deficit more than it contributes to economic activity as a whole.

The conclusion cannot be avoided that the only kind of recession likely to be moderate is one that isn't really a recession at all, but merely a temporary fluctuation within the range of full employment prosperity.

This conclusion that the economy is not depression-proof need not, however, be made the basis for constant worry about a decline that might sometime or other take place. Premature action based on fears that create emergencies from minor fluctuations in a period of overemployment can only aggravate the ultimate problem.

VLB

### MACHINE TOOL ORDERS AND SHIPMENTS

1945-47 = 100



Source: National Machine Tool Builders' Assn.



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Large Manufacturing Companies Listed

A list of 1,000 large manufacturing corporations and their subsidiary and affiliated companies in 1948 has been prepared by the Federal Trade Commission. Type of operation, industry rank, total assets, percentage of stock owned by the parent company, and date of the information received are shown. The list provides a means of identifying the different interests of these companies, and the grouping of them by industries reveals the variations in practice in organizing or acquiring subsidiaries and in seeking diversification through operations in industries other than that in which they are principally occupied. Titled *A List of 1,000 Large Manufacturing Companies, Their Subsidiaries and Affiliates, 1948*, the publication is available for \$1.00 a copy from the Superintendent of Documents, Government Printing Office, Washington 25, D.C.

### Duplicator Eliminates Special Copy

A duplicating machine which does not require the master copy to be on specially treated paper has been produced by Winchester Industries, Inc., River Edge, New Jersey. The new product can duplicate any kind of graphic material, including cloth and photographs. The only requirement is that it be flexible enough to fit around a drum in the machine.

Called the Faxcoa duplicator, the machine handles materials up to 8½ by 14 inches in size and makes as many as 10 copies at one setting. Each copy takes about three minutes to produce. The master copy is wound slowly around a revolving drum while each line is scanned by a photoelectric cell which converts the light it sees into electrical impulses. The varying amounts of reflected light

are then changed into proportional amounts of electrical current and transmitted to a second drum. Here the current passes through chemically treated paper which is sensitive to electricity. The pattern produced by electricity on the treated paper is an exact copy since the current varies with the pattern of the original material.

Weighing less than 100 pounds, the duplicator will retail for about \$850 according to the manufacturer.

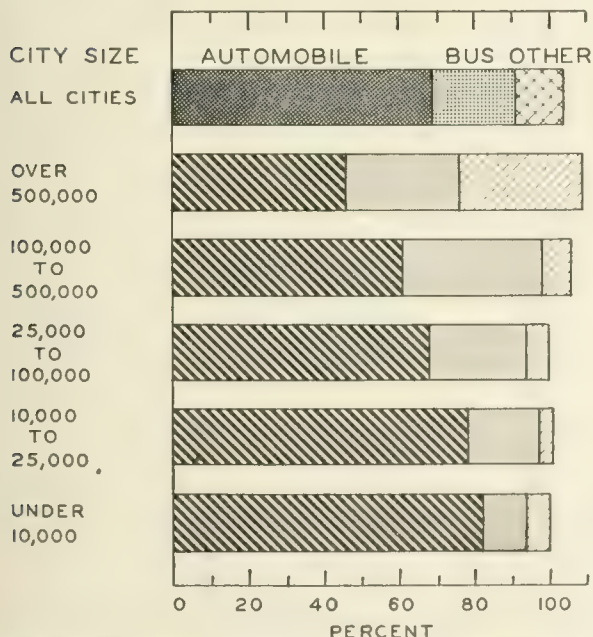
### Means of Transportation to Work

Passenger cars are used more frequently than any other form of transportation as a means of getting to work, according to a 1951 survey conducted by the Crowell-Collier Publishing Company. Of the nation's employees who rode to their jobs, over two-thirds used an automobile whereas only one-fourth took a bus or streetcar.

A definite relationship existed between city size and the form of transportation chosen, as is shown by the accompanying chart. In large cities (500,000 persons and over) where intricate bus, streetcar, and subway systems operated and where automobile parking was a problem, more than half of all persons who rode to work went on a bus or subway. As the size of the city declined and public transportation became limited, an increasing number of employees relied on passenger cars.

Regional comparisons on means of transportation follow closely the pattern of city size. In the East only 58 percent of all working persons using some form of transport rode in an automobile whereas 45 percent rode the bus or subway to their jobs. In the South, Middle West, and Far West, the percentage of employees transported by car was much higher—71 percent, 73 percent, and 81 percent, respectively. More than 15 percent of all employees walked to work in the Middle West, as compared with 20 percent in the South and in the Far West and only 10 percent in the East.

WORKERS' TRANSPORTATION\*



\* Percentages may add to more than 100 since some riders used more than one form of transportation.

Source: 1951 Survey by Crowell-Collier Publishing Company.

### Wood Wastes Converted to Lumber

Wood shavings, trim, and other forms of cellulose can now be converted into useful lumber by means of a process developed in England by Bartrev, Ltd. Wood wastes fed into Bartrev's 200-ton machine are combined with small quantities of resins and placed on a bank of stainless steel 50 inches wide. This mass is carried through heating equipment where the resins are set and pressure exerted on the conglomeration by six hydraulic units. The result is a continuous wood panel, four feet wide, which looks like ordinary lumber. The thickness of the board can be set at anywhere from 3/16 to 3/4 of an inch by simply turning a dial.

The British firm's representative in this country, Aries Fiberboard Corporation, New York, New York, thinks the material can be used for low-cost prefabricated home construction. The converting machine can be bought for \$615,000.

### National Outlay for Research

Over \$3.5 billion were spent in 1952 for scientific research and development, two-thirds of which went for work performed in laboratories and other facilities owned or operated by private industry, according to a recent report issued jointly by the Labor Department's Bureau of

(Continued on page 9)

# THE SHORT-TERM OUTLOOK FOR CONSUMER CREDIT

ERNST A. DAUER

Director of Consumer Credit Studies, Household Finance Corporation

During the year ended April 30, the total of outstanding consumer short- and intermediate-term debt rose almost \$5 billion, causing alarm in some quarters. However, the present, and the prospective, totals are consistent with expanded consumer ability to pay, and are essential to continued high production and distribution of consumer durable goods. The increased risk of potential instability in business activity—which use of credit in all its forms entails—is probably a necessary price of our high-level economy.

## Facts About the Postwar Credit Expansion

The substantial increase in consumer credit outstanding is shown in Chart 1. In considering this increase, many people overlook a number of incontrovertible, though not necessarily self-evident, facts.

(1) The low level of consumer credit in the war years, 1942 through 1945, was the result of the absence of durable goods production on the one hand, and the high level of incomes of the mass of workers on the other.

(2) The volume of consumer credit created in succeeding years inevitably rose as durable goods became available, and the increase in the volume outstanding was necessarily steep while a more nearly normal condition was being restored. The rise was temporarily halted in 1951 but was resumed after the removal of restrictions in 1952.

(3) The increase in prices resulting from inflation was reflected directly in the increase in consumer credit outstanding, since all the goods and services it helped finance had to be purchased at higher prices.

(4) To compare today's dollar level of consumer credit with the level outstanding in 1945 is meaningless. To compare the increase since 1945 in consumer credit with the increase in any national measure which was not similarly depressed during the war is equally meaningless. The present level of consumer credit and of installment credit is about the same as the prewar peak in terms of an over-all aggregate such as disposable personal income (i.e., consumer income after taxes), as shown in Chart 2.

(5) There is nothing sacred about the prewar level of consumer credit either in terms of dollar amount or in relation to disposable personal income, gross national product, or other measures. The prewar peak relationships in 1940, for example, were attained at a time when there were 8 million unemployed in this country, and when we were slowly and not too successfully recovering from the long depression.

(6) Our scale of living in the United States is the highest in the world. It is based on a high output per worker per hour, on mass production, and on mass consumption. If we are to have continued high production of major durable goods, we must accept the widespread use of consumer credit as an essential part of our marketing system.

## Soundness of Current Volume

With this background, let us appraise the soundness of the current volume of outstanding consumer credit of \$26.2 billion and installment credit of \$19.7 billion. The best and latest figures available with respect to the distribution of the debt are those in the *Survey of Consumer Finances* made by the Federal Reserve Board early in 1952. This showed that one-half of the 54 million spending units in the United States had no short-term debt whatever, other than charge accounts. Four-fifths of all spending units owed less than 10 percent of their annual income after taxes. Only one-tenth owed more than 20 percent of their annual income after taxes.

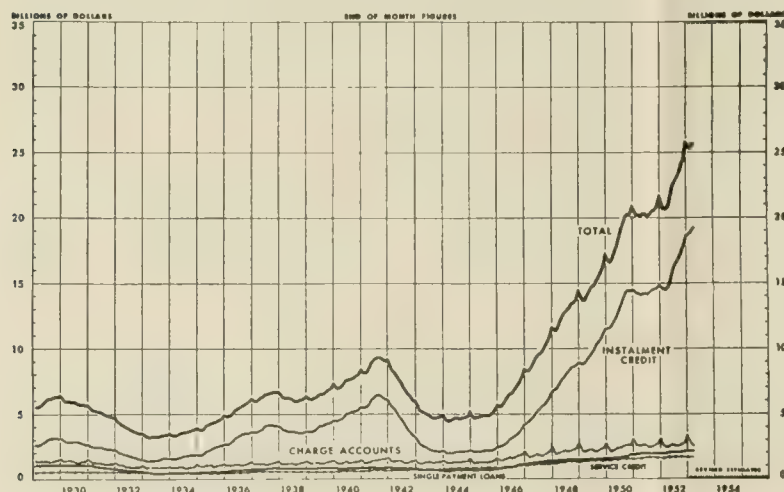
The bulk of the debt is owed by those in the \$3,000 to \$7,500 annual income groups. For the most part, it is owed by heads of families (usually those with growing children, where the need for family durable assets is greatest) in the age groups between 18 and 44, where incomes are most likely to continue to rise.

There is no reason for believing that this amount of debt will have an onerous effect on future purchasing power. Those who incur substantial debt temporarily withdraw from the market for other durable goods, but their places are taken by others who have repaid debt. That process is occurring at all times. In the absence of sudden and widespread unemployment, then, this amount of debt is not likely to be burdensome.

It is essential to recognize that during the last two decades the proportion of total income received by the middle and lower income groups has increased considerably. Outlays for subsistence require a lower proportion of the income of the mass of workers, at present, than before the war. Conversely, the proportion of total income which is available for the purchase of durable goods, or for servicing consumer debt, is now much higher. The amount of liquid assets today is much greater, and its distribution better.

The proportion of borrowers behind in their payments is currently low. Commercial banks hold about one-half of all installment credit; sales finance companies, about 30 percent; consumer finance companies operating under small loan laws, about 10 percent. Fig-

CHART 1. CONSUMER CREDIT OUTSTANDING



Source: Federal Reserve Board.



ures released by the American Bankers Association indicate a lower rate of delinquency at the end of 1952 than in any preceding year since the end of the war. The latest ABA figures, as of April 30, show a lower rate of delinquency than a year earlier for five out of six classifications of consumer loans. Automobile paper acquired from retailers alone was higher, but not seriously so. A statement made by a spokesman for CIT showed a lower ratio of past due accounts at the end of February than at any time in the preceding two years. Delinquency on HFC loans, while fractionally higher than in recent years, is very low, lower than we consider normal for our type of business. There is ample evidence in each of these important segments of the consumer credit industry that renewed attention is being focused upon soundness of credit-granting policies, and upon effective collection procedures.

There has been some publicity recently about reposessions, usually referring to used cars. Repossessions, or really voluntary abandonments, always increase in a period of price deterioration — a condition which has been developing in the used car market. But neither delinquencies nor reposessions are likely to be serious in the absence of widespread unemployment.

## Future Volume

The preliminary results of the 1953 *Survey of Consumer Finances* show that consumers intend to buy durable goods at a rate equal to, or somewhat higher than, the 1952 rate. It is generally agreed that consumer incomes will continue high throughout 1953, and available evidence indicates that material will be available to permit high production schedules. It also seems clear that the practical elimination of backlogs of demand in all areas will bring about, or has brought about, a resumption of competitive markets for consumer durable goods. Under these conditions, the trend of consumer credit volume will continue upward.

If anything approaching 6 million cars, to take a specific example, is to be sold this year, then the volume of consumer credit will continue to grow throughout most of 1953. How rapidly it grows will depend on the

degree to which businessmen attempt to move the high output of durable goods through lower prices and higher trade-ins, and through improved quality, or through easier terms. (Incidentally, there has been very little evidence of excessively lenient terms to date.)

Repayments on installment credit have been running close to \$2 billion per month. Credit granted may exceed this by as much as \$300 million to \$500 million per month during the peak automobile selling season, and by \$100 million to \$200 million per month during most other months. By the end of the year consumer installment credit outstanding will probably be between \$21 billion and \$23 billion. The *rate* of increase will be somewhat less, therefore, than it was during the last year.

## You Can't Have Everything

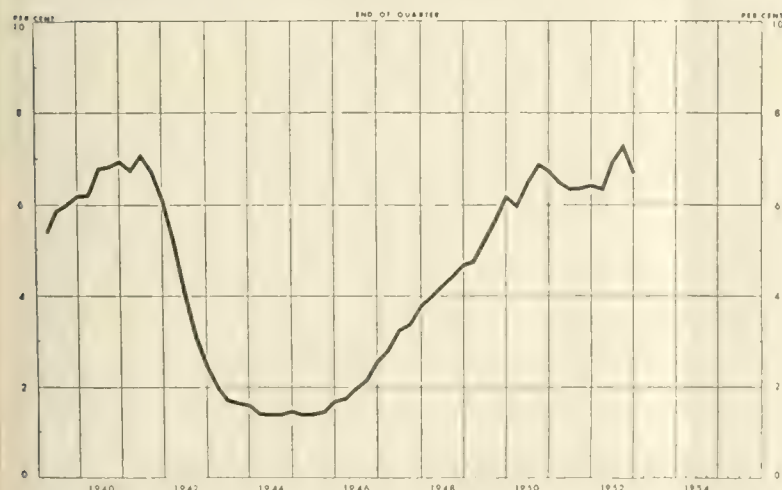
Reference was made earlier to our high scale of living and to the increased portion of income available for discretionary spending.

The large accumulation of durable goods — both in the hands of business and in the hands of consumers — makes it possible for the economy to live off its fat for an extended period. In other words, it makes it possible for both business and consumers to avoid replacing durable goods. It makes possible a large degree of potential instability in the sales of durable goods, both producer and consumer. But this occurs ordinarily only if there is a shock to business or consumer confidence.

When postponement of the purchase of durable goods occurs, either on the part of business or consumers, then the continued repayment of debt brings a decline in the outstanding volume of credit and of money. Such financial changes merely reflect the basic shift in purchaser attitudes. They do not initiate a downturn. There is no evidence of a threat to our economic position before the end of 1953. If a downturn occurs in 1954 — as some predict, though the prospect is not so clear as they think — it will result from other than credit factors.

These are the facts of life of a high-level economy such as ours. Some instability may be part of its price, which we must accept. The alternative is a lowered average level of industrial production and unemployment, and a lower-than-necessary standard of living. The sound and widespread use of consumer credit is essential to continued accumulation by middle and lower income families of the durable goods which are an increasingly important part of our rising standard of living.

**CHART 2. RELATION OF CONSUMER INSTALLMENT CREDIT TO DISPOSABLE PERSONAL INCOME\***



\* Consumer installment credit at end of quarter as percentage of disposable personal income for quarter (seasonally adjusted totals at annual rates).

Sources: Department of Commerce and Federal Reserve Board.

## Business Briefs

(Continued from page 7)

Labor Statistics and the Department of Defense. The 42-page report, which provides a "bird's-eye view" of the nation's industrial research, contains data on the cost of research programs; the number of engineers, scientists, and other research workers employed; the amount of money which various industries allot to research; and the ratio of research cost to sales. Other topics discussed include average cost per research worker and turnover rates among engineers and scientists. *Industrial Research and Development* may be obtained free of charge from the New York Office, U. S. Bureau of Labor Statistics, 341 Ninth Avenue, New York 1, New York.

# LOCAL ILLINOIS DEVELOPMENTS

Business in Illinois during May was generally well above the level of a year ago and somewhat better than during April. Breaking all previous records, steel production in the Chicago District totaled 2.2 million net tons—up 3 percent from the preceding month and 30 percent from May, 1952. Coal production was up 7 percent from April and 12 percent from the same month a year ago. Also improving over May, 1952, as well as over April were petroleum production, business loans, and department store sales both in the Chicago area and in the Seventh Federal Reserve District.

Although the number of employees in manufacturing industries dropped slightly from April to May, total nonfarm employment reached a 1953 peak of 3.4 million persons in mid-May. Bank debits, electric power production, and average weekly earnings also declined somewhat from April but were well above last year's level. Construction contracts awarded, down 27 percent from April, were up 9 percent from May, 1952.

## Illinois Housing Characteristics

Slightly over 50 percent of the 2.7 million dwelling units in Illinois were owner-occupied in 1950, according to the Census Bureau's latest reports on general housing characteristics for the State. Median value of nonfarm homes occupied by owners was estimated to be \$8,646. Gross monthly rent of renter-occupied nonfarm homes amounted to \$47.19 for the State whereas median rent for rural nonfarm homes was \$34.34.

Only 2 percent of all dwelling units in Illinois were without electric lights in 1950, nearly half of which were urban or rural nonfarm homes. More homes had radios (92.5 percent) than had kitchen sinks (87.3 percent), whereas mechanical refrigeration was reported in five out of six units. Data on occupancy by number of persons, dwelling units by type of structure, by year built, by number of rooms, and by persons per room are contained

in *Housing Characteristics—Illinois*, Report H-A13, which is available from the United States Department of Commerce Field Service, Chicago Regional Office, 221 North LaSalle Street, Chicago 1, Illinois, for 70¢ a copy.

## Life Insurance Sales High

Illinois ranked fourth in sales of ordinary life insurance during May, surpassed only by New York, California, and Pennsylvania. Accounting for almost 7 percent of the nation's volume in May, Illinois sales amounted to \$129.9 million, up 21 percent from May, 1952, but 5 percent less than in April. Since last September, ordinary life insurance sales have risen well above the level of previous years both in Illinois and throughout the nation as a whole. During the first five months of 1953, monthly sales in Illinois have averaged more than 22 percent higher than in the same months of 1952.

## Lake Construction in Illinois

The construction of two new lakes and improvements on three existing lakes are major projects of the Illinois Conservation Department's biggest lake building and rehabilitation program in four years. Almost two-thirds of the Department's total appropriation of \$755,000 is designated for new lakes to be built in Clark and Stephenson counties. Preliminary engineering and geology surveys have been completed on two sites already owned by the State. Work is expected to begin next year.

Improvements are planned for Wolf Lake in Cook County, Argyle Lake in McDonough County, and Lake Murphysboro in Jackson County. Individual appropriations for these areas amount to \$130,000, \$95,000, and \$50,000, respectively. Scheduled to start late this summer and to be completed in a year, the rehabilitation program will include roads, parking areas, dredging, sanitary facilities, landscaping, stream crossings, and picnic sites. The purpose of the improvement program is to open up areas currently inaccessible to fishermen and picnickers.

## Earnings and Living Costs Compared

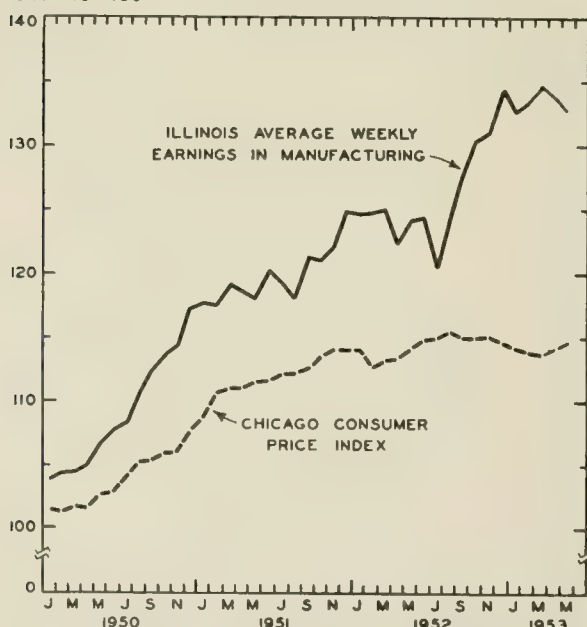
Average weekly earnings in Illinois manufacturing industries increased at a much more rapid rate than the Chicago consumer price index during the past 10 months. The accompanying chart shows that the cost of living remained near or slightly below the peak established in August, 1952, but earnings spiraled upward as the result of higher hourly wages and a longer workweek with overtime premiums. The increased proportion of workers employed in the higher-paid durable goods industries further contributed to the gain.

Although average weekly earnings in the manufacturing industries have declined slightly since March when they reached \$77.04, or 134.7 percent of the 1947-49 level, they remain high. In May earnings averaged \$76.02 per week and the index registered 132.9, or 7 percent above that of the same month a year ago.

Consumer prices in Chicago rose slightly during May. The index stood at 114.6 (1947-49 = 100), up slightly from May, 1952, and within a point of the August, 1952, peak. Changes in all major categories were less than 1 percent from April to May. The predominant changes from May, 1952, were a 4 percent decline in food costs and a 5 percent gain in transportation expenses. Increases of 3 or 4 percent were noted in the indexes for housing, medical care, and miscellaneous goods and services.

## EARNINGS AND PRICES

1947-49 = 100



Sources: Bureau of Labor Statistics and Illinois State Employment Service.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

May, 1953

	Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>5</sup> (000,000)	Postal Receipts <sup>6</sup> (000)
<b>ILLINOIS</b> .....	\$27,138 <sup>a</sup>	925,732 <sup>a</sup>	\$571,485 <sup>a</sup>		\$12,521 <sup>a</sup>	\$12,497 <sup>a</sup>
Percentage Change from... Apr., 1953	+4.7	-2.8	+0.1	+5	-0.8	-4.4
May, 1952	-15.0	+9.8	+11.2	-1	+10.4	+3.5
<b>NORTHERN ILLINOIS</b>						
<b>Chicago</b> .....	\$18,905	721,564	\$417,342		\$11,407	\$10,907
Percentage Change from... {Apr., 1953	+14.4	-2.7	-0.3	n.a.	-1.4	-4.0
May, 1952	-24.5	+10.3	+9.8		+10.3	+2.8
<b>Aurora</b> .....	\$ 240	n.a.	\$ 8,287		\$ 45	\$ 94
Percentage Change from... {Apr., 1953	0.0		+2.2	+2	-2.1	-6.6
May, 1952	-41.6		+14.7	-3	+5.9	+19.7
<b>Elgin</b> .....	\$ 442	n.a.	\$ 5,805		\$ 28	\$ 76
Percentage Change from... {Apr., 1953	+3.5		+2.6	n.a.	+5.2	-14.0
May, 1952	+50.9		+11.8		+2.7	+5.5
<b>Joliet</b> .....	\$ 971	n.a.	\$12,393		\$ 60	\$ 71
Percentage Change from... {Apr., 1953	+43.4		+1.0	+16	+1.2	-19.1
May, 1952	+198.8		+26.5	+10	+14.8	+18.8
<b>Kankakee</b> .....	\$ 362	n.a.	\$ 5,874		n.a.	\$ 34
Percentage Change from... {Apr., 1953	+89.5		+4.4	n.a.		+7.9
May, 1952	+100.0		+21.3			+8.5
<b>Rock Island-Moline</b> .....	\$ 849	19,036	\$10,874		\$ 89 <sup>b</sup>	\$ 147
Percentage Change from... {Apr., 1953	-32.7	-7.3	+2.2	n.a.	+8.4	-9.3
May, 1952	-54.9	+6.8	+12.5		+3.8	+6.5
<b>Rockford</b> .....	\$2,183	31,887	\$18,636		\$ 142	\$ 173
Percentage Change from... {Apr., 1953	+104.6	-4.3	+4.0	-2	+5.2	-11.7
May, 1952	+126.0	+20.8	+18.3	-1	+13.9	+1.9
<b>CENTRAL ILLINOIS</b>						
<b>Bloomington</b> .....	\$ 271	6,277	\$ 7,235		\$ 60	\$ 139
Percentage Change from... {Apr., 1953	-25.5	-6.6	-4.2	n.a.	+8.4	+4.6
May, 1952	+10.6	+10.4	+40.4		+21.1	+17.9
<b>Champaign-Urbana</b> .....	\$ 189	7,372	\$ 7,690		\$ 49	\$ 81
Percentage Change from... {Apr., 1953	-20.6	-11.3	-1.6	n.a.	-6.7	-17.1
May, 1952	+96.9	-2.0	+11.7		-5.1	-8.0
<b>Danville</b> .....	\$ 221	8,105	\$ 6,453		\$ 37	\$ 54
Percentage Change from... {Apr., 1953	-55.0	+1.0	+1.8	+5	-4.4	+4.1
May, 1952	-10.9	+10.5	+14.8	0	-3.9	+9.6
<b>Decatur</b> .....	\$ 556	20,768	\$ 9,996		\$ 78	\$ 97
Percentage Change from... {Apr., 1953	-21.6	-3.7	-3.5	+0	-7.4	-9.0
May, 1952	+99.3	+15.5	+14.2	+2	-4.0	-0.7
<b>Galesburg</b> .....	\$ 87	5,993	\$ 4,522		n.a.	\$ 30
Percentage Change from... {Apr., 1953	-60.6	-8.2	+8.1	n.a.		-8.1
May, 1952	-46.3	+7.9	+17.2			+2.1
<b>Peoria</b> .....	\$ 515	45,489 <sup>c</sup>	\$18,136		\$ 244	\$ 192
Percentage Change from... {Apr., 1953	-54.0	+0.3	+0.7	+3	+27.9	-6.6
May, 1952	+50.1	+0.8	+9.1	0	+34.9	+6.6
<b>Quincy</b> .....	\$ 322	6,830	\$ 5,078		\$ 34	\$ 69
Percentage Change from... {Apr., 1953	-68.9	-4.3	+2.4	+11	-0.8	+4.7
May, 1952	+37.0	+13.5	+10.1	+4	-2.2	+2.0
<b>Springfield</b> .....	\$ 515	23,607 <sup>c</sup>	\$14,093		\$ 91	\$ 217
Percentage Change from... {Apr., 1953	-7.7	-4.1	+1.4	n.a.	-3.9	-0.9
May, 1952	+8.2	+4.3	+11.2		+7.5	+23.2
<b>SOUTHERN ILLINOIS</b>						
<b>East St. Louis</b> .....	\$ 234	12,850	\$ 9,704		\$ 124	\$ 52
Percentage Change from... {Apr., 1953	-56.3	-0.6	+1.4	n.a.	-3.1	-14.4
May, 1952	+2.6	+9.7	+9.5		+3.8	-9.3
<b>Alton</b> .....	\$ 125	10,680	\$ 5,048		\$ 32	\$ 26
Percentage Change from... {Apr., 1953	-26.5	-1.9	+2.2	n.a.	-1.1	-12.3
May, 1952	-67.4	+2.9	+15.5		+7.2	-1.8
<b>Belleville</b> .....	\$ 151	5,273	\$ 4,319		n.a.	\$ 37
Percentage Change from... Apr., 1953	+73.6	+5.8	-1.5	n.a.		-2.1
May, 1952	+38.5	+20.4	+9.7			+12.3

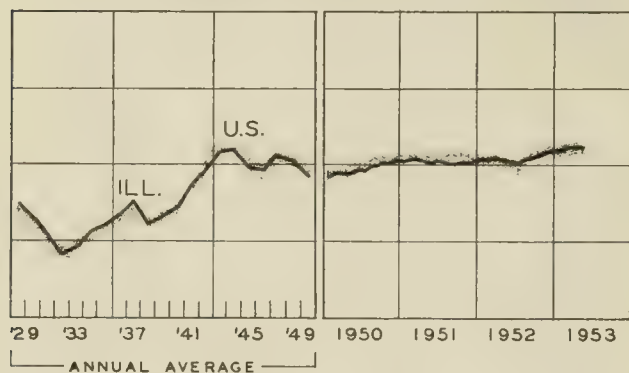
<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.

Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for April, 1953, the most recent available. Comparisons relate to March, 1953, and April, 1952. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

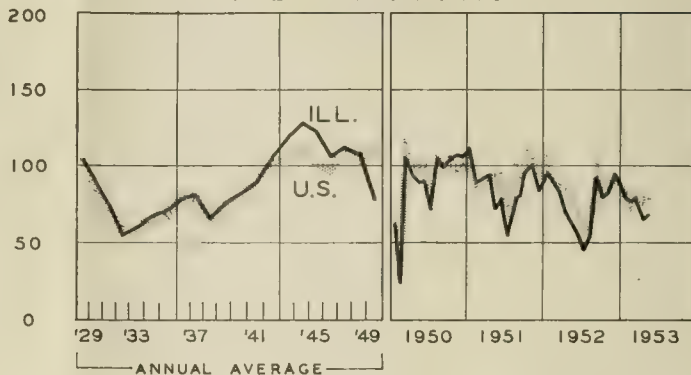
# INDEXES OF BUSINESS ACTIVITY

1947-1949=100

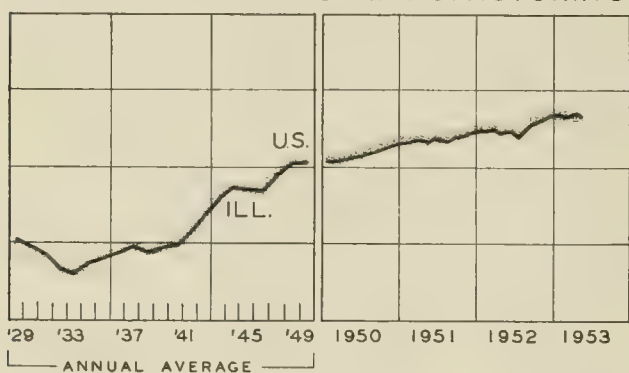
## EMPLOYMENT - MANUFACTURING



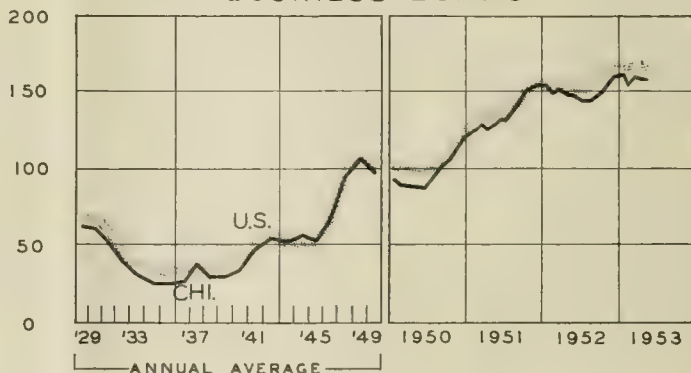
## COAL PRODUCTION



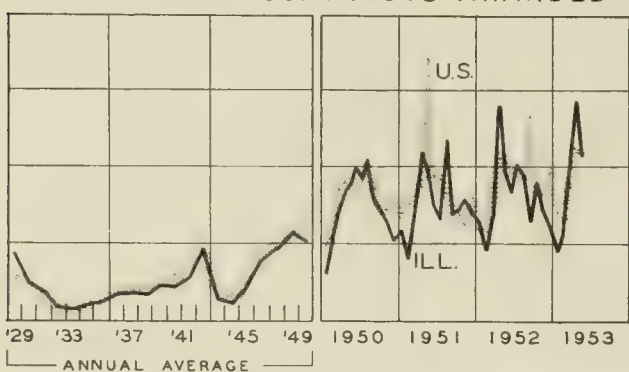
## AVG. WKLY. EARNINGS - MANUFACTURING



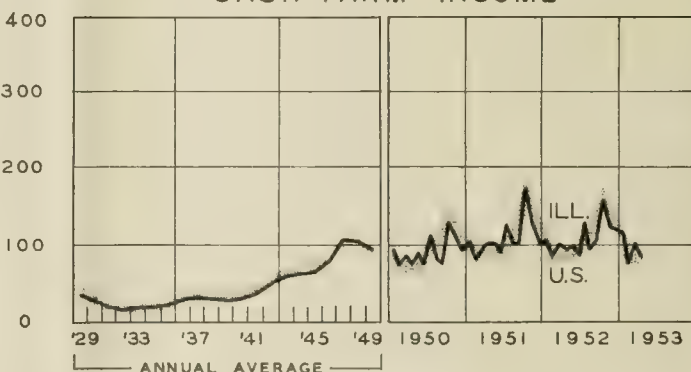
## BUSINESS LOANS



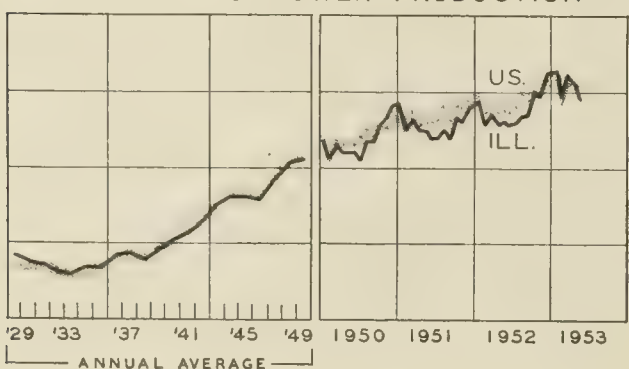
## CONSTRUCTION CONTRACTS AWARDED



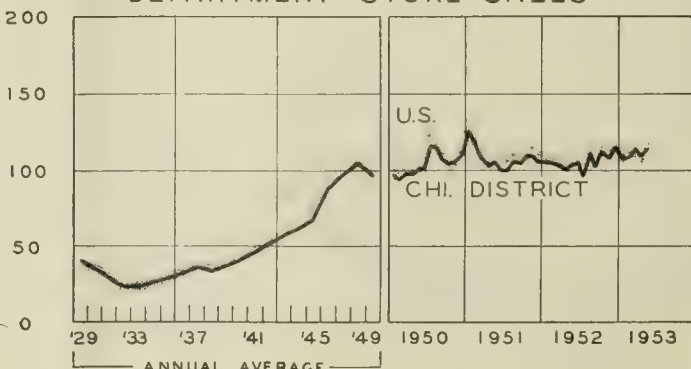
## CASH FARM INCOME



## ELECTRIC POWER PRODUCTION



## DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME X

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NUMBER 8

## HIGHLIGHTS OF BUSINESS IN JULY

Few new peaks in business activity were attained in July as plants shut down for vacation periods and the annual trek to vacation resorts went into full swing. One possible exception is tourist expenditures, which seem to be rising rapidly. In the first six months of this year 15 percent more Americans visited Europe than in the first six months of last year.

### Homebuilding Boom Rolls On

Construction of new homes in the first half of this year showed no signs of slackening. Over 577,000 new nonfarm dwellings were begun during this period as compared with 566,000 during the first half of last year. Public housing starts have dropped sharply since March but an increase in private residential building has more than offset the decline.

In June alone, construction was begun on 103,000 new nonfarm housing units. This was slightly below last June's level and 4 percent less than the May figure—a seasonal decline—but represents the fourth successive month that new housing starts exceeded 100,000.

### Federal Deficit at Postwar Peak

The Federal government terminated its last fiscal year, the year ending June 30, with a record peacetime deficit of \$9.4 billion. This figure is considerably more than had been expected, and is largely due to overestimation of tax receipts, principally of corporation income tax payments.

A balanced budget for the current fiscal year, the goal of some Administration officials, now seems to be out of the question, and estimates of the deficit this year are in the neighborhood of \$5 billion to \$6 billion. The reimposition of the excess profits tax to the end of the year will be of some help in this regard, as it is expected to add \$800 million in revenues. Nevertheless, an increase in the statutory debt limit from the present figure of \$275 billion appeared likely, as the Federal debt rose in the middle of July to a new peak of \$272.4 billion—approximately \$1,700 for each man, woman, and child in the country. Tax collections during the last fiscal year amounted to \$436 per capita.

### Farm Production Outlook

The total output of food and feed crops in 1953 is expected to be the third largest on record, according to estimates made by the United States Department of Agriculture. If so, this year's production would be exceeded only by that of last year and of the peak year, 1948. Nearly 360 million acres of crops were planted this year, about 4.5 million acres more than in 1952, but acreage losses this year due to various causes are expected to be higher than last year.

The 1953 wheat crop is estimated at 1.2 billion bushels, an estimate which, though below last year's figure, is large enough to necessitate Federal acreage controls on the crop. With much of last year's crop still in grain elevators, Secretary of Agriculture Benson restricted next year's crop to 62 million acres, the minimum allowed by law. This represents a reduction of one-fifth.

The estimate of this year's corn crop, 3.3 billion bushels, places it as the second highest on record and may lead to planting and marketing controls on corn for the first time in history. With production of other crops also high, feed grain supplies may be at record levels.

### Exports Down

American businessmen have not been selling as much abroad this year as they did last year. The total value of United States shipments to foreign countries in the first five months of this year declined slightly as compared with the same period of last year despite a more than doubling in military aid shipments. The latter accounted for nearly a fourth of the \$6.7 billion of exports, even though it excludes economic and other aid programs which are not reported separately. Deducting military aid shipments from the total indicates a drop of about 11 percent in United States nonmilitary exports.

At the same time, the value of goods imported during the January-May period rose \$150 million to \$4.7 billion. As a result, the merchandise balance of trade declined to \$2.0 billion for this period; for the same period last year, the comparable figure was about \$2.4 billion.

Because of the annual vacation of the University Print Shop this issue of the *Review* is reduced in size. It omits the usual statistical data, which are generally not yet available. We shall be glad to send copies of the missing tables to anyone requesting them. The next issue will contain the usual 12 pages.

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# ILLINOIS BUSINESS REVIEW

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## The Inevitable Deficit

Reports on government finances for fiscal 1953 reveal that tax receipts of \$65.2 billion were overshadowed by expenditures of \$74.6 billion, leaving a deficit of \$9.4 billion—the largest ever, except during World War II. Even taking into account the additional receipts paid into Social Security and other trust funds, there was a cash deficit of over \$5 billion. Thus, the last year under a budget passed during the Democratic regime is hardly one to make the budget balancers happy.

How much will the picture change under the new Administration? The outlook for the fiscal year just getting under way, based on actions already taken, suggests some improvement. Beyond that year, the prospects favor increasing deficits rather than a balanced budget.

The fact is, as it has been for some time, that the budget makers are on the spot. They can't squeeze out any more revenue, and actually have to contemplate lower receipts after the turn of the year. And they can't seem to get expenditures down; or if they do succeed in this, it may be at the expense of an even greater loss in receipts.

### Taxes Scheduled to Decline

The tax bite today goes deeper than ever before. Total collections in fiscal 1953, including trust fund taxes, reached a record of \$69.6 billion. Individuals were hit for \$37.2 billion in income and employment taxes, about 10 percent more than the preceding year. Miscellaneous taxes, mostly excises, were slightly less than \$11 billion, also up 10 percent. Corporations paid \$21.5 billion, about the same as a year earlier.

The only substantial action on taxes this year was the six-months' extension of the excess profits tax, which is now due to expire on January 1. Even this met strong opposition from Chairman Reed and his Ways and Means Committee. It wasn't passed without a fight—despite the fact that President Eisenhower, in asking for the extension in effect committed himself not to ask for its reenactment next term.

It can hardly be said that a stalemate between the Administration and Congress, like that which prevailed throughout Truman's term in office, has yet come into existence. That it has not may be credited to President Eisenhower's characteristic concern to keep the split in his party from breaking into open conflict.

For fiscal 1954 taxes will remain high. Personal incomes are running 7 percent above last year and the

taxes due in March will be on this year's income, so that the half year's rate reduction beginning next January may be completely offset. Corporations will also be paying on this year's higher incomes, and will be making payments faster in the first half of 1954. Only after next June, that is, with the beginning of fiscal 1955, will the full effect of the tax reductions be felt. Then, even with incomes fully maintained, revenues will decline about 10 percent from the highs; and if incomes fall, the drop will be much sharper.

This has led to talk about new taxes, specifically a Federal sales tax. However, opposition to such a tax is basically stronger than to some of the taxes being dropped. It may be doubted that any new tax can be passed in an election year.

### Spending Has Strong Support

Expenditures have not yet turned down. Some minor reductions will probably be made during the next year, but there is nothing in the actions taken thus far to suggest that they can be considered under control. The dominant elements in the new Administration—those responsible for national security—come together in the National Security Council. They feel that military programs cannot be cut further, and these represent the biggest part of the budget.

Moreover, there may well be some offsetting increases to any minor cuts in military spending. New proposals with substantial backing are continually being made; and expenditures under open-end programs like farm price supports will probably increase more than the economies effected in other continuing programs.

Practically the one place a real cut was made this year was in the foreign aid program. Here again, the rift between the Administration and Congress is in evidence. To the former, cutting the program seemed unwise, in view of the fact that the Russians have put aside aggressive measures in favor of a peace offensive designed to split the Western Alliance. No doubt, the lessening of tension strengthened the opposition in Congress. It also gained strength because the financial condition of the countries of Western Europe has been much improved during the last year, partly as a result of booming business in this country.

Other measures that have been adopted are also deficit increasing. The hard money policy, for example, directly increases expenditures in the form of higher interest payments; and to the extent that it is successful in curbing private activity, tax receipts will be correspondingly reduced.

The dilemma of the budget makers lies in the fact that the more drastically they cut expenditures, the weaker the case for a balanced budget becomes. Such cuts would bring on or accelerate a decline in business activity. Then, not only would tax receipts drop, but at least some kind of program of public works or other compensatory spending would be undertaken to prevent the deepening of depression.

For all these reasons, if the budget assumes any appearance of balance in the first half of 1954, it will probably be illusory. In a situation that has no real solution, something inevitably has to give; and the pressures supporting everything else suggest that it will be the deficit. It might be possible to postpone increasing the debt limit this year, partly at the expense of drawing down cash balances in the months ahead; but though determined speeches are made whenever the subject comes up, it is an action that can hardly be avoided.

VLB



### PETROLEUM PRODUCTION

Although man has known of petroleum since the dawn of history he has only recently learned its value. Until the end of the nineteenth century the principal use of petroleum was to provide kerosene for burning in lamps. Today, largely because of the development of the internal combustion engine, oil and natural gas provide more than half of all the energy used for power and heat in the United States.

Petroleum also provides the lubricants without which our modern machinery could not operate efficiently. Its derivatives are important ingredients in many substances, such as roofing materials, synthetic rubber, fertilizers, medicines, insecticides, and countless other products.

#### Searching for Oil

The dark liquid which we take so much for granted has a long and interesting history. The crude petroleum which in its processed forms lubricates our machines, propels our cars, and provides fertilizer for our farms is believed to have been formed by the decay of microscopic plant and animal life many millions of years ago. It is thought that these minute organisms, sealed under the seas by mud deposits, slowly decomposed and formed, among other things, petroleum.

Methods of discovering oil have come a long way since the days of the oilman who depended on the "hunch," the divining rod, or Lady Luck. The progress of modern science and the constant study of geophysicists and geologists have made the discovery of oil a less haphazard undertaking than it once was. Such instruments as the gravity meter, the magnetometer and the seismograph have been pressed into the service of the petroleum industry.

With the aid of these instruments, variations in gravity, in magnetic attraction, and in earth tremors can be recorded and maps of underground rock formations drawn. Once these rock formations are known, the chances of finding oil can be estimated with some degree of accuracy.

These new methods, however, do not provide conclusive evidence regarding the whereabouts of oil. Only the actual drilling of a well can determine whether or not there is any oil. Even those wells which produce oil do not always produce it in quantities or qualities sufficiently valuable to repay the effort expended in drilling the well and operating it.

Less than one out of every nine "wildcat" wells, wells in unexplored areas, produce oil and even in known oil fields, only three out of every four wells bring up oil. This is far better than in the early days of the industry in the United States, however, when it is estimated that just one out of 20 or 25 wildcat wells ever produced oil.

#### Oil Production in Illinois

The first commercial production of oil in Illinois took place in 1889 soon after the discovery of oil pools in south-central Illinois. Only 1,000 barrels were produced

in the first year, but as new wells were brought into operation in central and southern Illinois, oil production expanded continually until in 1940, the year of the State's peak output, almost 150 million barrels were produced. In the following years, fewer new discoveries were made and production dropped off at a rapid rate. By 1950, output was only 62 million barrels, less than half that of 1940.

In spite of this large drop in production, only six foreign countries produced more oil in 1950 than was produced in Illinois. These countries were Venezuela, the U.S.S.R., Iran, Kuwait, Saudi Arabia, and Mexico.

#### Petroleum Reserves

Both the length and the magnitude of the decline in the State's petroleum output might lead one to expect the virtual disappearance of the industry from Illinois. There are several indications, however, that the State will continue to play a significant part in the petroleum industry for some time to come.

The first of these is the gradual increase in proven oil reserves within the State. At the end of 1945, proven oil reserves stood at a level of 350 million barrels. At the end of 1950, this figure had risen to 560 million barrels. The increase alone represents about four years' production and the total proven reserve represents 9 or 10 years' output at the present rate.

The second, and perhaps more important consideration, is the effect of the use of secondary recovery techniques on the State's oil production. The most commonly used method in the Illinois fields is water flooding, whereby pressure within the well is rebuilt by pumping water into the well at the proper point. The use of such secondary recovery techniques lengthens the active life of most wells and allows the pumping of much petroleum which would have been allowed to remain in the ground a few years ago.

However, a water flooding operation may take from six months to as much as three years to complete. For this reason the many secondary recovery operations which have been started in the Illinois fields in recent years are contributing only slightly more than 10 percent of present production. Some experts feel that when such programs are put into widespread use they should give us steady production at about present levels for the next fifty years.

In addition, oilmen are conscious of the fact that the deepest well in the State has not gone below 8,000 feet. It is possible that with modern equipment capable of drilling four miles into the earth, untapped reservoirs of petroleum may be found at previously unexplored levels. Oil pools at from two to a dozen different levels are not uncommon and at the Seligson field in southwest Texas, 42 separate oil-producing horizons have been found. This, of course, remains only a possibility until the first deeper producing well has been drilled in Illinois.

# KNOW YOUR STATE

# RECENT ECONOMIC CHANGES

## Aluminum Production at Record

Primary aluminum production in May advanced 3,500 tons to a record 105,400 tons, about 1,000 tons above the previous high reached in March. Production in the first five months of 1953 amounted to almost 500,000 tons. As shown by the accompanying chart, this was substantially (nearly 30 percent) above output in the corresponding period of 1952. Output for the year as a whole is likely to be considerably in excess of last year's record of 940,000 tons of primary aluminum.

This rapid increase in output has been made possible by the great expansion of the industry's productive facilities since the outbreak of hostilities in Korea in June, 1950. By the end of last year, primary capacity had risen from 700,000 tons to 1.2 million tons, an increase of 70 percent. Construction projects now underway are expected to raise the capacity level another 500,000 tons to 1.7 million tons.

## Dividend Payments Rise

Dividend payments by corporations issuing public reports amounted to \$1.25 billion in June, 6 percent above June, 1952. Manufacturing firms paid stockholders 5 percent more this June than last, but the increase was primarily the result of a shift in payment dates, as a number of large manufacturing companies that paid dividends in May last year paid them in June this year. Nonmanufacturing industries' dividends were 7 percent over June a year ago.

Dividend disbursements in June raised the total paid out in the first half of the year to \$4 billion, an increase of 4 percent over the same 1952 period. Manufacturers' dividends were up 1.5 percent, with the largest advances

concentrated in the oil refining and machinery industries. Transportation equipment companies increased their dividends in the first half by 10 percent, and, except for a drop in disbursements by textile firms which reflected reduced rates and dividend omissions, other manufacturing industries either maintained first half 1952 disbursements or raised them moderately. Nonmanufacturing payments were 8 percent above the first six months of last year, as finance companies, railroads, and public utilities reported substantial increases over last year. Mining payments were down slightly, whereas other nonmanufacturing industries' payments were unchanged from last year.

## Latin American Investment

Since the end of World War II, United States long-term investment in Latin America has risen at a rate of about 8 percent a year. By the end of 1952, the total outstanding amounted to \$6.5 billion, almost a fifth of all United States investment abroad. Although loans by the Export-Import Bank and the International Bank for Reconstruction and Development and other indirect investment have been important in financing development of basic facilities in Latin America, well over three-fourths of the postwar increase has come directly from private firms in the United States and their Latin American subsidiaries. These funds were used mainly to expand petroleum and manufacturing industries.

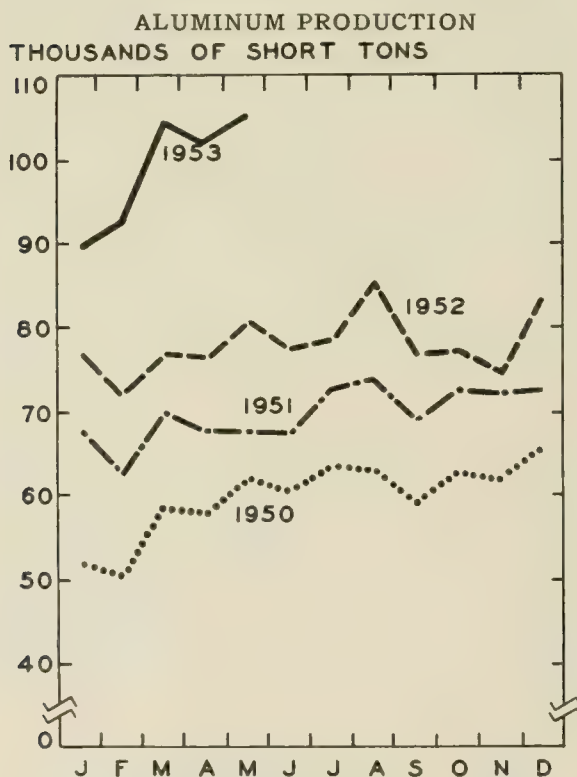
More than half of postwar additions to investment in Latin America were concentrated in three of the twenty-one Latin American republics, Venezuela, Brazil, and Mexico. The absence of adequate power, transportation, and communication facilities; the adverse effects of inflation; and strong nationalistic tendencies in some of the other countries provide restraining influences on United States investment.

## Individuals' Liquid Saving

Individuals added \$2.5 billion to their liquid savings during the first quarter of 1953. This was slightly above saving in the first three months of 1952, and was the highest for any first quarter in the postwar period. Following the usual pattern, liquid saving was substantially below saving in the last quarter of 1952, primarily reflecting payment of income taxes.

The composition of saving in the first quarter differed only slightly from that of the same period last year. Currency and bank deposits declined \$1.5 billion, slightly less than the seasonal drop that occurred in the first quarter a year ago; individuals' saving in insurance, including private life insurance and Government pension reserves, amounted to \$2.2 billion in the first quarter compared with \$2.4 billion last year; and investment in shares of savings and loan associations amounted to over \$900 million, almost as high as the record \$1.0 billion of the preceding quarter, and \$200 million above the first quarter of 1952.

The largest increase between the two first quarters was in investment in securities (mainly United States government bonds) which amounted to \$2.5 billion, greater than at any time since the first quarter of 1947. Partially offsetting this rise, individuals increased their mortgage indebtedness somewhat more than in the first quarter of last year and, contrary to the usual first quarter experience, expanded their installment indebtedness.



Source: U. S. Department of Commerce.



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### School Enrollment

Over 45 percent of the population aged 5 to 34 was enrolled in school or college at the beginning of the 1952-53 school year, according to a Census Bureau release. In the largest compulsory school age group—children 7 to 13 years old—about 99 percent were registered whereas only 85 percent of persons 14 to 17 years and only a little more than a third of those 18 and 19 years old had enrolled. The rates for succeeding age groups declined sharply. The number of boys and girls in elementary and high school was about equal, but almost twice as many men as women were attending college.

School enrollment in October of 1952 (about 32 million) was 1.4 million larger than for the same month of the preceding year. Most of the increase was due to a larger number of children in elementary schools.

### Plastic Slide Fastener

An all-plastic slide fastener that makes an airtight waterproof seal and won't snag has been designed for use with plastic film or sheeting. It operates without teeth on a simple principle in which two parallel grooves run the length of each fastener and hook together in a continuous strip. A plastic slide opens and closes the fastener, or it can be closed by pressing the grooves together. The fastener, called Flexigrip, was invented in Denmark and is manufactured in the United States by Flexigrip, Inc. of New York.

### Research in Business

The place of commercial research in business depends upon the cooperation of management. Executives who recognize the need for facts on which to base their decisions and a sales management which is willing to accept facts are two necessary prerequisites of successful business research, according to an article by J. T. Miller entitled "The Place of Research in Business" published in the June issue of *The Controller*. Research, as defined by the author, is choosing the essential information from a mass of data acquired through experience and study, and applying it constructively to the solution of problems encountered in the operation and plans of a company.

Some functions of research discussed include the measurement of market potentials and the setting up of sales quotas, discovery of consumer desires, an analysis of competition, and forecasts of business trends. Research is not infallible, and the author points out some common pitfalls, such as neglecting to interpret fully all the facts and figures and working on insignificant problems.

### Gardeners' Aid

A gadget which, when attached to a garden hose or sprinkler, can be set to turn the water off automatically after any length of time has been marketed by Flo-Matic Valve Company, St. Paul, Minnesota. Measuring 6 inches long, 2¾ inches wide, and 2¼ inches high, the new device couples to any standard threaded faucet, then fastens to a garden hose. Useful for lawns, golf courses, greenhouses, and small irrigation systems as well as for filling tanks and vats, the gadget will also control the flow of other light liquids. It retails for \$7.95.

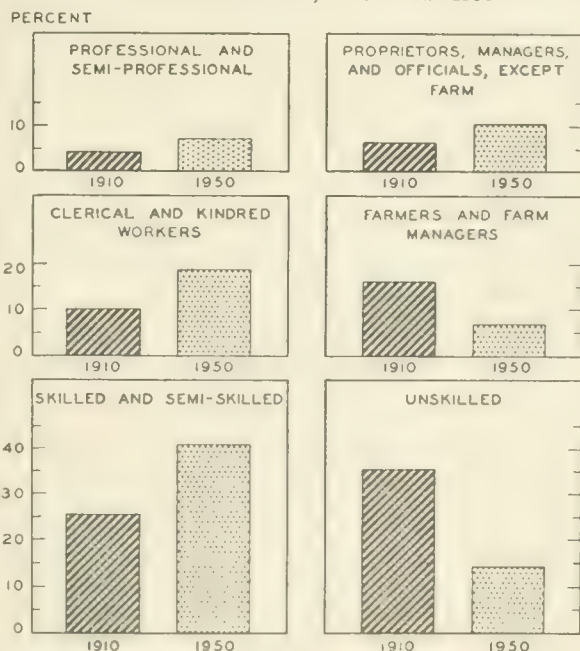
### Composition of the Labor Force

During the last 40 years unskilled workers in the United States declined from 36 percent of the labor force to less than 15 percent according to the Bureau of the Census. The chart below, which compares the occupational distribution of workers in 1910 and in 1950, shows that the proportion of professional and semiprofessional persons increased from one out of every 25 workers in 1910 to one out of every 14 workers in 1950. During the same period, the proportion of proprietors, managers, and officials (except farm) also increased, from 6.5 percent of the labor force to 10.4 percent.

The second Yearbook of the Department of Labor (entitled *The Workers' Story — 1913-1953*, available through the Superintendent of Documents, Washington, D. C.) states that changes in the occupational distribution of workers during the last 40 years are due to immigration restrictions, to the shift from country to urban living, to an increasing proportion of older workers and a declining proportion of younger workers in the labor force, and to a larger number of employed women.

Greater educational opportunities have also played a dominant role in occupational distribution changes, but perhaps the most important factor influencing the composition of the labor force is the improvement in productivity. The use of machinery has enabled today's worker to be from 2 to 3 times more productive than his counterpart of 1910. Consequently the need for common laborers, including farm workers, has diminished. Farm mechanization, which introduced a trend toward fewer but larger farms, brought about a decline in the proportion of persons working as farmers and farm managers—from 16.5 percent of the labor force in 1910 to only 7.0 percent in 1950.

### OCCUPATIONAL DISTRIBUTION OF THE LABOR FORCE, 1910 AND 1950



Source: Bureau of the Census.

# PENSIONS AND PROFITS

A. STUART HALL, Assistant Professor of Economics

Overshadowed by the more spectacular concomitants of the Cold War, labor's drive for security through industrial pensions may in retrospect appear to have been one of the most important phenomena of the postwar period in shaping the economic life of America in years to come. In comparison with the barrels of ink and hundreds of radio hours devoted to disquisitions on fiscal and monetary policies, little attention has been given to the probable impact of industrial pensions. The paragraphs which follow contain a few facts about pensions, to be sure, but they are essentially speculative in nature and are meant to be provocative rather than factual.

For many years, workers in various industries—notably, transportation and the public utilities—have enjoyed some form of pension benefit. The great growth of the industrial pension movement, however, dates from 1949, only four years ago. In 1948, only 1.6 million workers were covered by such plans. By 1950, the figure had risen to 4.2 million, an increase of 160 percent. By the end of 1952, over 10 million workers were covered. There were about 14,000 agreements as compared with 7,000 in 1945. If government employees are included, not less than 16 million persons—one-fourth of the total labor force—would be regarded as beneficiaries of some sort of retirement plan other than Social Security.

There is nothing mysterious about this immense growth. There were two immediate causes. Both of these afford interesting fields for philosophizing on the proper role of the Federal government in economic life, but space forbids such a digression. The first event was the court decision in *NLRB v. Inland Steel* (170 F.2d 247, September, 1948) which upheld the government's demand that the employer bargain collectively and in good faith on the issue of industrial pensions. The second event which gave impetus to the pension drive occurred in September, 1949, when the Steel Industry Fact-Finding Board asserted that the cost of worker pensions is properly a charge on the cost of production.

Organized labor could hardly fail to take advantage of the opportunity thus afforded it; and there is every reason to suppose that, except, perhaps, for highly seasonal occupations such as the building trades, some sort of pension plan will soon be a feature of all but the most modest labor contracts. Then, if the past is any harbinger of the future, the long-run phenomenon of competition in the labor market will ensure that within a generation, given substantially full employment, the vast majority of the nonagricultural labor force will expect and receive roughly comparable benefits.

## The Plans and Their Beneficiaries

In general, collective-bargaining pension or retirement plans are supplementary to the Federal Social Security program. Plans typically undertake to assure workers a "package" affording the difference between what they may expect under Social Security (OASI) at age 65 and some larger figure. This latter figure is, of course, the nub of the collective bargaining procedure regarding retirement benefits. At present, \$125 per month after 30 years' service to the firm would probably be a representative retirement benefit for a single worker. In most instances, OASI would provide about two-thirds of this amount, the remainder coming from the private employer.

The costs of these plans may, as usual, be regarded from more than one viewpoint. To begin with, it is evident that in a civilized society the cost of providing some sort of support for retired workers is inescapable. The problem of costs therefore reduces to this: Who shall stand this inescapable expense, and how much should it be? The social aspects of the question will be briefly noted later; at present, let it suffice to say that the costs to employers of these supplementary industrial retirement plans typically run to about 5 or 6 percent of payrolls. (It is, of course, obvious that when a plan "qualifies"—most do—under section 165 (a) of the Internal Revenue Code, the resulting tax exemption reduces the cost of a dollar contribution to about 48 cents, perhaps even less if the firm is conspicuously profitable.)

But the true cost to society of this new quest for economic security is necessarily contingent on the composition of the American population. In 1950, there were 11.6 million persons who were 65 years of age or older. A projection of the present population trend to 1960 indicates that by that time this category will include 15 or 16 million persons, or about 9 percent of the population. It has been estimated that if all persons now 65 or more were retired, it would require about 5 percent of the present national income to support them at a very modest level, scarcely better than subsistence.

Yet more persons are attaining 65 than ever before. In addition, they are living longer after reaching that age. Thus the aggregate of what may be called "retired-person-years" is increasing in two ways. Obviously, the years of man are finite; but there is abundant evidence that a curve portraying survivors at ages 70, 75, 80, . . . holds above zero in a way that would have been incredible forty years ago. An aphorism of the actuarial profession has it that annuitants never die—they slowly fade away. It may be that if longevity is enhanced by the industrial-pension drive, young men in medical school may strive to become gerontologists rather than specialists in the gastric ulcer!

Be that as it may, it is clear that the social burden of industrial pensions will increase absolutely. Whether this burden will increase or decrease relatively depends on other things, some of which will now be considered.

## Costs and Profits

Ultimately, all profits derive from the production and sale of goods and services. Profits are therefore, among other things, a function of effective demand (purchasing power) and productive efficiency and capacity. Productive capacity, in turn, is closely related to the availability of "capital goods." Pensions not only increase costs, they modify all these other aspects of the profits picture.

At first glance it would seem that any pension scheme is merely a transfer of purchasing power through time, where the worker foregoes spending this year so that he may spend in 19xx. But this could not possibly be the case unless the present abstention were to take the form of hoarding; and pension funds are not hoarded. They are invariably invested, either directly (20 percent of the stock of a leading mail-order house is owned by its employee pension fund) or through the intermediary of insurance companies and other custodians. This financial investment facilitates *real* investment, which in turn gen-



erates employment and, thereby, contemporary incomes. The immediate effect of a pension plan is therefore dynamic; it rearranges, to some extent, the pattern of expenditures.

Already pension funds aggregate about \$11 billion, and this year accretions to these funds will amount to about \$1.8 billion, a sum which would have purchased 30 percent of all new corporate security issues offered in 1950. Thus, unless the growth of pension funds somehow inhibits or diminishes "free" or private saving, a corollary of this growth appears to be a tendency for interest rates to decline somewhat. Hence firms with a large investment of borrowed capital may experience some gradual offsetting of the additional expenses of a pension plan.

Even more important in reducing business costs may be other aspects of the pension movement. While it is apparent that *total* costs must increase by the addition of retirement plan contributions, it does not necessarily follow that *unit* costs will increase. There is, in fact, a strong possibility that in many organizations these might decline somewhat. When workers are aware of having a stake in an enterprise and in its continued success, the presumption must be that they will work more energetically and productively.

Furthermore, the staggering costs of high labor turnover may greatly diminish. Since retirement benefits have not usually been "vested," the worker who leaves a job after several years may sacrifice an appreciable part of his whole-life income. To some extent also, pensions will hasten the retirement of workers whose efficiency has, because of age, declined. Workers in this category are often kept on, partly from humanitarian motives and partly because of seniority. Thus in many instances retirement plans may prove a boon if they merely avoid what tends to be hidden in a rigid seniority system—namely, *de facto* pensions now paid under the guise of wages and salaries. The participating firm is twice blessed if it retires the relatively inefficient and thereby fosters ambition among younger workers. For all these reasons, the increase in total costs is likely to be less than the cost of the pension plan.

## Market Expansion

The favorable impact of a strong and steady demand on unit overhead costs is, of course, well known. "Capacity operation," as usually understood, means lowest unit overhead costs. Now the purchasing power of the older segment of the population will be considerably increased by the widespread adoption of industrial retirement plans, for that is their purpose. This means increased demand, because the marginal propensity to consume is much greater among low-income receivers than among more affluent persons. This is likely to be especially true where low-income receivers are also retired persons with ample leisure. Thus the presence in the market of a large number of pensioners should have a stabilizing effect on the demand for a great many types of goods and services.

It should not be inferred that more wheelchairs and fewer hot-rods will be produced; spending is always followed by re-spending by others, and so on, ad infinitum. Hence, because of the fascinating interdependence of economic phenomena, the existence of a powerful and continuous demand for any class of goods and services—amenities or atomic missiles—eventually reacts favorably on millions of apparently unrelated producers.

But any bugaboo fears that the industrial pension drive presages prolonged inflation seem groundless, on the assumption that the secular rate of growth in Ameri-

ca's productive capacity—about 3 percent per year, on the average—continues; and there is no reason to suppose that the pension movement *per se* will inhibit this growth. As an approximation, compounding the 1952 national income at 3 percent suggests a 1960 income about 27 percent larger. This gain would compare favorably with the projected rate of gain for the same period in the numerical strength of the 65-and-over age group. If the philosophy of industrial pensions envisaged providing an income sufficient to command a yacht and an air-conditioned penthouse for every retired worker, a gigantic and painful reallocation of resources might develop. Obviously, no such luxury is contemplated.

## Tentative Conclusions

In any case the problem of supporting the worker over 65 cannot be avoided; and, as noted above, the supposed additional costs to society may be more apparent than real, once they are regarded as additional *net* costs rather than absolute amounts. But the net additional costs of a semi-universal worker retirement system are likely to bear unequally on different firms, exaggerating a characteristic already present in our economic system—that which dictates that some firms make profits and some do not.

The probable impact of a widespread industrial pension system seems to depend on whether costs increase by an amount equal to, more than, or less than the gain in total revenues. Since the cost of a pension plan tends to vary directly with the size of a working staff, highly mechanized firms are likely to receive benefits resulting from the enhanced demand generated by a widespread pension system without incurring proportionately increased costs. On the other hand, firms whose ratio of direct labor costs to total costs is very high may experience an absolute diminution of total profits. Smaller firms with relatively high labor costs are likely to be handicapped by the rise of the pension system, as are new firms with an uncertain future; these will find it harder to become viable. Even if firms of this description refuse to concede a retirement system to workers, they will, unless situated in a remote location, experience an adverse selection with respect to applicants for jobs; no one, given an alternative, will elect to work for a nonpension firm if he can secure more attractive employment elsewhere.

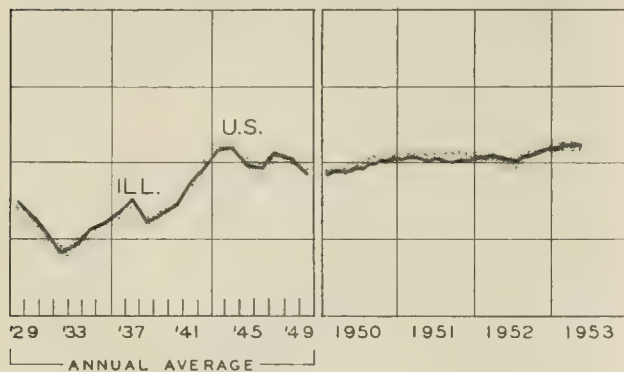
In general, therefore, it would seem that larger, more mechanized, more diversified firms loom up as chief beneficiaries of the change in income distribution implicit in the philosophy of industrial pensions. The additional costs of the system will tend to place a premium on top-flight managerial ability; and it may even foster greater responsibility among politicians and voters, because both for business and government this ambitious attempt to provide security (and, as a corollary, to assure some stability in the purchasing power of annuities) will be a challenge of the first order. The present writer's guess is that this challenge will be met best, in the long run, by the continued evolution of large and even monolithic firms—industrial "empires." The less efficient, less mechanized firms will find the road rocky indeed.

In recent years many have commented—some, fearfully—on the trend toward corporate concentration and the supposed decline of the small entrepreneur. The rise of the pension system may well accentuate this trend; but it did not originate it. The movement is merely one manifestation of a silent decision which seems to have been made already by Americans, who in the past generation have given economic security priority over untrammelled freedom of opportunity.

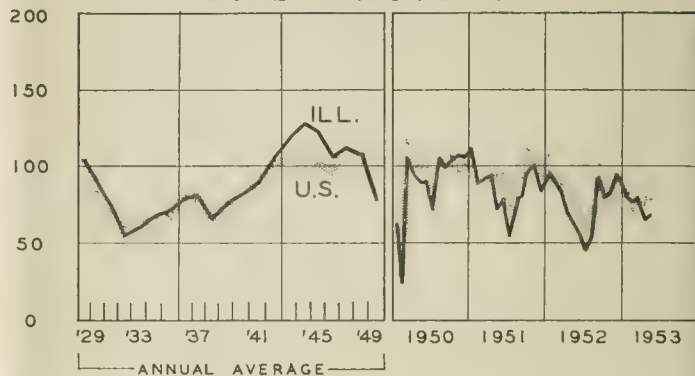
# INDEXES OF BUSINESS ACTIVITY

1947-1949=100

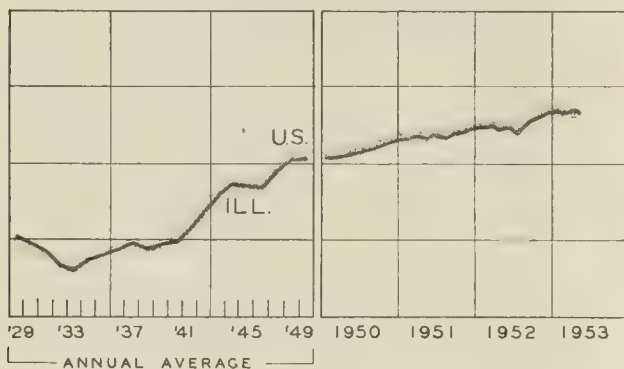
EMPLOYMENT - MANUFACTURING



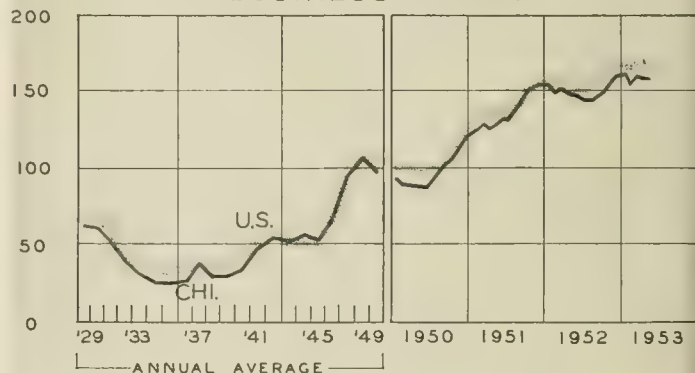
COAL PRODUCTION



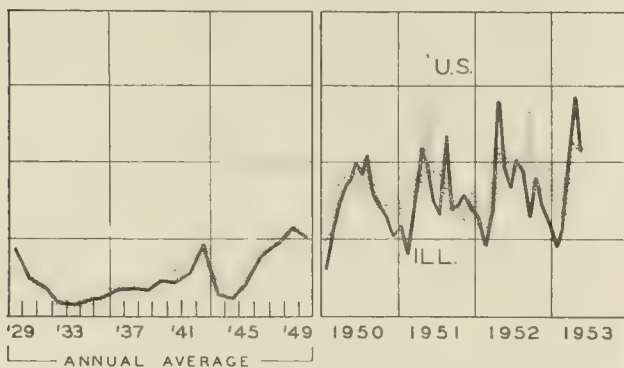
AVG. WKLY. EARNINGS - MANUFACTURING



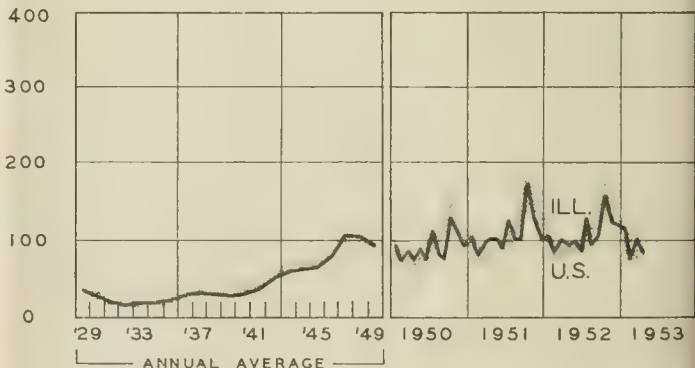
BUSINESS LOANS



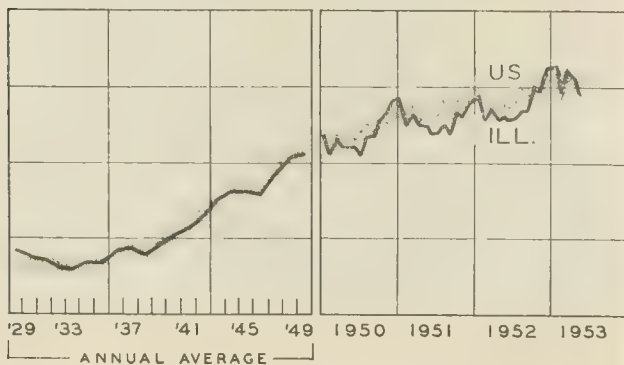
CONSTRUCTION CONTRACTS AWARDED



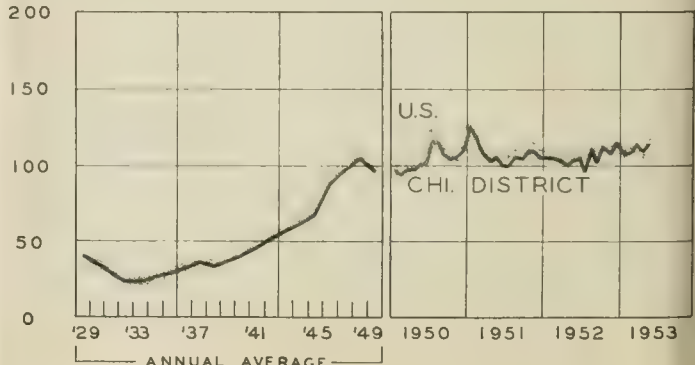
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
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## HIGHLIGHTS OF BUSINESS IN AUGUST

Business activity continued at a high level during August. After dipping seven points in July because of plant-wide vacations, the Federal Reserve index of industrial production in August recovered most of the loss, rising to about 238 percent of its 1935-39 average. Last August, the index stood at 218.

Steel production in the last week of the month was down to 93.4 percent of capacity as compared with 94 percent a month earlier and 99.6 percent a year ago. However, because of the increased capacity of the industry, the actual output of ingots and castings during the week, 2.1 million tons, exceeded last year's level. Auto production declined to 526,000 cars in August, principally because of the General Motors fire which led to a suspension in Cadillac production and a 50 percent cut in the output of Oldsmobiles. Increased output is expected in September.

### Unemployment at Postwar Low

Less than two out of every hundred people actively seeking work were unemployed in August, as unemployment fell to a post-World War II low of 1.2 million. At the same time, total (civilian) employment rose to an all-time peak of 63.4 million, about one million higher than the employment figure for last August.

The favorable employment situation was almost wholly due to a seasonal pickup in commercial and factory hiring, raising nonfarm employment to a high of 56.1 million. Farm employment declined by 350,000 to 7.3 million as a result of the usual midsummer lull.

In addition to record employment, a large part of the labor force also benefited from peak earning rates. Average hourly earnings of factory workers in July, including overtime, reached a new high of \$1.77, more than a fifth higher than the pre-Korean level. Average weekly earnings amounted to \$71.51, slightly below June but \$12.30 more than in July, 1950.

### Construction Expenditures Maintained

The construction boom continued unabated during the summer months. Outlays for new construction in August were estimated at \$3.3 billion, only slightly higher than in July but 7 percent above the total for August, 1952.

Contrary to the situation in previous years, non-residential construction rather than private homebuilding has been the mainstay of the boom this year. Commercial

building in particular has shown increasing activity in recent months. Expenditures on the construction of stores, restaurants, and garages in August were 49 percent above the level of last year, and outlays on new warehouses and office buildings had practically doubled.

Private homebuilding, though still above year-ago levels, declined in August for the second successive month. This was a counter-seasonal movement, reflecting fewer housing starts (chart, p. 6).

### Inventory Accumulation Slackens

Wary of a possible recession, manufacturers in July cut down sharply on additions to inventories. The total value of raw materials and finished goods in their hands at the end of the month amounted to \$45.6 billion. The (seasonally adjusted) increase over the preceding month, \$100 million, was far below the \$500-million-a-month inventory increases in recent months.

At the July level, inventory holdings of manufacturers were \$3 billion higher than a year ago, almost all of this increase being in the hands of makers of durable goods. In relation to sales, inventories this July amounted to less than two months' sales as compared with an inventory-sales ratio of 2.1 last July. Sales last July, however, were somewhat depressed by the steel strike.

Unfilled orders on the books of manufacturers at the end of July totaled \$70.4 billion, down \$400 million from June and about \$4.6 billion below July, 1952. Most of the decline from the preceding year occurred in the unfilled orders of durable goods manufacturers.

### Stock Market Bearish

Fearing the long-anticipated recession to be around the corner, the stock market in August by-passed the usual midsummer rally and dipped to a new low for the year. More than a quarter of the stocks listed on the New York Stock Exchange hit new lows for 1953 in the last week of the month, and by the month's end, the Dow-Jones average of 30 industrial stocks had declined to 261. This was one point below the previous low for the year in June and about 13 percent below the year's high attained in January.

Motors, machinery, steel, aircraft, and rail stocks were among the hardest hit, as highly favorable second quarter earnings reports by many companies in these areas seem to have been largely disregarded.

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# ILLINOIS BUSINESS REVIEW

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## This Rampant Pessimism

The economy continues to boom along. Income keeps pushing to new peaks, and anyone who wants a share in this record-breaking income has little difficulty in finding work—so unemployment is at an irreducible low.

In all this, the pessimist finds little room for satisfaction. To him, it merely means that we now have just that much further to fall.

What is strange about the situation is not that we have pessimists but that we have so many of them. We seem again to be engulfed in one of those waves of sentiment that sweep the economy with little relation to the realities of what is taking place. Among those who comment on the business outlook, there is again virtual unanimity in warnings of trouble ahead.

### Weakness in Speculative Markets

Effects of this concert of pessimistic predictions have been confined largely to speculative and sensitive commodity markets. Almost the only signs of weakness in the economy today are the declines in prices in some of those markets. It is there that changes in feelings about future prospects can be made immediately effective.

In recent trading sessions, the stock market has been making new lows for the year. It responds quickly to changes in sentiment, and then its movement reinforces the sentiment to which it responds. This cumulative process drives the market to extremes. But it does not carry over into business operations more generally, and for this reason, the extremes tend to be only temporary. When business conditions do not justify them, there will sooner or later be a rebound.

Even a brief review of postwar experience is sufficient to show that the market's movements have been of no value whatsoever in indicating what the future of business will be. Where they conformed to the movement of business, it was after the fact rather than before it. Nevertheless, the notion that the stock market is a barometer of business will not die, and in this fact lie some of the best opportunities for the wise speculator. In our opinion, the better view is that stock market values will continue to be determined over the longer run by earnings and dividend yields. A good bargain is only made better by a further markdown in prices.

Farm prices have also dropped back to the lowest level since the outbreak in Korea. There are numerous reasons for the decline, some quite beyond control, like

favorable weather here and abroad. The basic depressing force has been high production and the accumulation of large inventories; but in addition, farmers' fears seem to have made some contribution. Possibly something about the procedures of crop programming tends to exaggerate the swings. In any case, when the farmers get jittery they dump supplies on the market, depressing prices, and they also restrict their own buying, thus depressing production in the farm equipment and related industries.

It is a mistake to think that this kind of letdown in agriculture has a generally depressing effect upon business. Within fairly broad limits, changes in farm prices involve merely shifts in real income. What the farmer loses is somebody else's gain. The consumer who can buy his food more cheaply has just that much more to spend on other things. Total employment may in fact be stimulated, because the farmer does not become unemployed and opportunities for other workers are opened up. The decline in farm income is not, therefore, a precursor of disaster for business in general.

### Little Influence on Business

In other words, these price declines measure only changes in expectations or other special conditions in particular segments of the economy. Almost daily, there is new evidence that expectations do not determine business. Almost all the studies of this subject—in contrast to mere theorizing about it—tend to show that expectations do not automatically fulfill themselves by turning production and employment in the same direction. Commitments may be curtailed here and there, but before output is correspondingly reduced, they are likely to be re-established. More often than not, the forecasts are disappointed even when they are most widely accepted.

There are certain basic demands that determine rates of activity and neither farmers' fears nor financiers' forecasts can override them. In the present situation, none of the basic factors has changed, or is in prospect of changing so drastically within the next year, as to justify the extremes of pessimism that have already been reached. The stock market has already discounted a potential setback in business volume and profits beyond any likely to be realized by the end of 1954.

Foremost among the reasons cited for the pessimistic view is the projected decline in military spending. However, practically nothing was said in the recently released midyear *Review of the 1954 Budget* to justify its estimate that military expenditures will be \$2 billion lower than in fiscal 1953. The fact is that no final determination of the armament program has yet been made. The Administration's position will depend in large measure on the results of new security studies currently being made by the Joint Chiefs of Staff. In the meantime, there is nothing in the recent trend of expenditures to suggest that so low a figure as the new budget estimate is at all likely to be realized.

It is true that numerous examples of cutbacks in specific lines of procurement can be pointed to. It is also true that these cutbacks, or even the mere leveling of production, will involve some liquidation of inventories in the durable-goods industries. Inventories had to be built up in the process of expanding production, simply because inputs always precede outputs. When the pipe lines are filled, the accumulation ceases; and to the extent that production can be made more efficient, some runoff must be expected.

(Continued on page 9)



## **CAPITAL FOR ILLINOIS INDUSTRY**

The need for banks was felt early in the history of Illinois. Growing industries and farms demanded credit institutions to supply their increasing capital requirements. Banks were established in Illinois as early as 1816, and even before this time we know of at least one instance of a private individual who performed the function of a public banker.

By 1821 the General Assembly had become so impressed with the need for a stable circulating medium that a bank was chartered with a capital of \$500,000 and the State pledged its credit for the redemption of its notes. Although poor management, resulting in losses to the State of hundreds of thousands of dollars, eventually led to the dissolution of this bank, others were soon chartered and the State's banking system has grown larger and more sound as time passed by.

Today, banking plays such an important role in both industry and agriculture that neither could exist in its present form without it. Illinois now has 894 banks which, on December 31, 1952, held deposits of well over \$14 billion. Over \$8 billion of this was in the form of demand deposits of individuals, partnerships, and corporations, and another \$3.5 billion was in the form of time deposits. The remaining \$2.5 billion is made up of deposits of government units and miscellaneous deposits.

### **Banks as Credit Institutions**

An important function of the banking system consists of supplying funds for industrial, agricultural, and commercial purposes. While the ability of the individual banker to make loans and investments comes largely from the receipt of depositors' money, the bulk of deposits originate in the granting of loans or the purchase of investments by banks. This paradox arises largely because loans or investments of banks are limited by law and custom to a given ratio to reserves. The deposits created through the loaning or investing of funds by banks are usually not withdrawn in cash but are deposited by check in other banks where they become the basis for further loans the size of which depends on the legal and customary reserve requirements. Through the repetition of this process, loans of many times the size of the original deposit can be made by the banking system as a whole.

At the close of 1952, loans of Illinois banks amounted to over \$4 billion. The largest portion of these loans, about \$2.5 billion, was for commercial and industrial purposes. Real estate loans were next largest and came to over half a billion dollars. Farm loans, although not at their highest at this time of year, amounted to over a quarter of a billion dollars.

In addition to serving the public as depositories and credit institutions, large numbers of banks perform such useful functions as the maintenance of safe deposit vaults, trust departments, and business development departments. The correspondent relationships and interbank deposits maintained by most banks with other banks, domestic and foreign, enable business firms and individ-

uals to conduct a large part of their international financial and business transactions at their own bank at a great saving in both time and money.

### **Illinois Banks Well Insured**

Of 894 banks in the State, 883, holding 99.8 percent of all deposits, are insured by the Federal Deposit Insurance Corporation, which guarantees all individual accounts up to \$10,000, and lesser percentages of deposits greater than that amount. The safety of deposits in Illinois banks is further enhanced by the fact that 511, or almost 60 percent, of all Illinois banks are members of the Federal Reserve System and are able to borrow funds or rediscount commercial paper in any emergency. Both the Federal Deposit Insurance Corporation and the Federal Reserve System exercise, in the interest of safety, some degree of supervision over member banks in regard to types and quantities of loans which member banks can make. Membership in the Federal Reserve System is mandatory for all national banks and optional for state banks. All state banks including those belonging to the Federal Deposit Insurance Corporation and the Federal Reserve System are examined by State agencies. Thus the liquidity and soundness of many of the State's banks are under the constant supervision of three groups of agencies.

### **"Bankers' Banks" Play Important Role**

A large portion of the efficiency and soundness of the banking system in Illinois may be attributed to the Federal Reserve System and particularly to the Federal Reserve Banks of Chicago and St. Louis. These are regional banks, each of which serves a large area covering several states, with the northern part of Illinois in the Chicago district and the southern part in the St. Louis district. Unlike most banks, these banks do not exist for the purpose of making a profit. They provide a central repository of financial resources and administer nation-wide banking and credit policies established by the Board of Governors of the Federal Reserve System. Being regionally organized, they give effective representation to the views and interests of the region to which they belong.

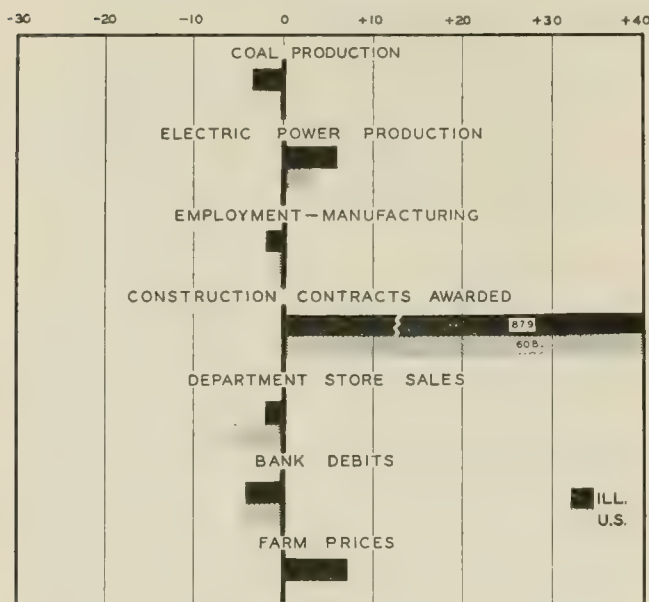
Their day-to-day work includes the clearing of several hundred million checks each year for banks within their district, purchase and sale of securities for member banks, the rediscounting of commercial paper, and loaning funds to member banks. In addition, each Federal Reserve Bank is responsible for the annual examination of about a thousand banks apiece and the supplying of coin and currency to these banks. Each Federal Reserve Bank has a research department which produces economic analyses and statistics for the purpose of aiding government officials, businessmen, and farmers in making policy decisions. The Federal Reserve System thus both serves and supervises the State's banks, helping to strengthen the backbone of industry and agriculture.

# **KNOW YOUR STATE**

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes June, 1953, to July, 1953



## ILLINOIS BUSINESS INDEXES

Item	July 1953 (1947-49 =100)	Percentage Change from	
		June 1953	July 1952
Electric power <sup>1</sup> .....	160.8	+ 6.0	+22.9
Coal production <sup>2</sup> .....	63.7	- 3.4	+41.3
Employment—manufacturing <sup>3</sup> .....	110.4	- 1.8	+ 9.2
Payrolls—manufacturing.....	n.a.		
Dept. store sales in Chicago <sup>4</sup> .....	105.0 <sup>a</sup>	+ 1.9	+ 5.0
Consumer prices in Chicago <sup>5</sup> .....	115.7	+ 0.3	+ 0.6
Construction contracts awarded <sup>6</sup> .....	291.0	+87.9	+42.0
Bank debits <sup>7</sup> .....	145.8	- 3.8	+ 6.2
Farm prices <sup>8</sup> .....	108.3	+ 6.9	- 6.1
Life insurance sales (ordinary) <sup>9</sup> .....	154.8	- 1.2	+22.1
Petroleum production <sup>10</sup> .....	90.2	+ 1.5	- 6.3

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.

<sup>a</sup> Seasonally adjusted. n.a. Not available.

## UNITED STATES MONTHLY INDEXES

Item	July 1953	Percentage Change from	
		June 1953	July 1952
	Annual rate in billion \$		
Personal income <sup>1</sup> . . . . .	288.1 <sup>a</sup>	+ 0.6	+ 8.2
Manufacturing <sup>1</sup> . . . . .			
Sales . . . . .	320.4 <sup>a</sup>	+ 1.9	+21.9
Inventories . . . . .	45.7 <sup>a, b</sup>	+ 0.4	+ 7.0
New construction activity <sup>1</sup> . . . . .			
Private residential . . . . .	13.2	- 0.8	+ 7.6
Private nonresidential . . . . .	12.9	+ 3.1	+10.3
Total public . . . . .	13.2	+ 4.9	+ 6.6
Foreign trade <sup>1</sup> . . . . .			
Merchandise exports . . . . .	n.a.	...	...
Merchandise imports . . . . .	n.a.	...	...
Excess of exports . . . . .	n.a.	...	...
Consumer credit outstanding <sup>2</sup> . . . . .			
Total credit . . . . .	27.2 <sup>b</sup>	+ 0.6	+19.6
Installment credit . . . . .	20.9 <sup>b</sup>	+ 1.8	+26.7
Business loans <sup>2</sup> . . . . .	22.6 <sup>b</sup>	- 0.7	+ 9.1
Cash farm income <sup>3</sup> . . . . .	28.8	+11.9	-11.0
	Indexes (1947-49 = 100)		
Industrial production <sup>2</sup> . . . . .			
Combined index . . . . .	126 <sup>a</sup>	- 2.9	+20.7
Durable manufactures . . . . .	144 <sup>a</sup>	- 2.5	+35.7
Nondurable manufactures . . . . .	112 <sup>a</sup>	- 3.0	+ 7.3
Minerals . . . . .	113 <sup>a</sup>	- 2.4	+18.7
Manufacturing employment <sup>4</sup> . . . . .			
Production workers . . . . .	113 <sup>a</sup>	+ 0.3	+12.3
Factory worker earnings <sup>4</sup> . . . . .			
Average hours worked . . . . .	101	- 0.7	+ 1.3
Average hourly earnings . . . . .	133	+ 0.6	+ 7.9
Average weekly earnings . . . . .	135	- 0.2	+ 9.3
Construction contracts awarded <sup>5</sup> . . . . .	234	+60.8	+18.7
Department store sales <sup>2</sup> . . . . .	112 <sup>a</sup>	- 2.6	+ 4.7
Consumers' price index <sup>4</sup> . . . . .	115	+ 0.2	+ 0.5
Wholesale prices <sup>4</sup> . . . . .			
All commodities . . . . .	111	+ 1.3	- 0.8
Farm products . . . . .	98	+ 2.6	-11.2
Foods . . . . .	106	+ 2.1	- 4.1
Other . . . . .	115	+ 0.8	+ 2.0
Farm prices <sup>3</sup> . . . . .			
Received by farmers . . . . .	96	0.0	-12.2
Paid by farmers . . . . .	112	+ 0.7	- 2.8
Parity ratio . . . . .	93 <sup>c</sup>	- 1.1	- 9.7

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp. <sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1953					1952
	Aug. 22	Aug. 15	Aug. 8	Aug. 1	July 25	Aug. 23
Production:						
Bituminous coal (daily avg.).....	1,595	1,589	1,561	1,533	1,527	1,631
Electric power by utilities.....	8,432	8,514	8,464	8,512	8,460	7,627
Motor vehicles (Wards).....	155.7	154.1	135.5	158.0	161.1	109.6
Petroleum (daily avg.).....	6,529	6,507	6,451	6,471	6,483	6,204
Steel.....	134.6	133.6	131.9	130.0	132.5	125.5
Freight carloadings.....	817	807	785	794	781	806
Department store sales.....	100	95	92	86	83	95
Commodity prices, wholesale:						
All commodities.....	110.8	110.5	110.7	110.5	111.0	112.2
Other than farm products and foods.....	114.8	114.8	114.8	114.5	114.5	113.0
22 commodities.....	89.0	88.1	87.8	88.4	88.2	96.0
Finance:						
Business loans.....	22,940	22,912	22,799	22,643	22,671	20,978
Failures, industrial and commercial.....	122	150	195	182	184	154

Source: Survey of Current Business, Weekly Supplements.



# RECENT ECONOMIC CHANGES

## Employment Continues at Record

Employment continued at a record high in August as the number of jobholders advanced moderately to 63.4 million. The number of nonfarm workers increased by 600,000 to 56.1 million from July to August to more than offset the seasonal decline in farm employment. Unemployment, at a post-World War II low, amounted to 1.2 million, with only about 2 percent of the nation's labor force unable to find jobs. Census data, in thousands of workers, are as follows:

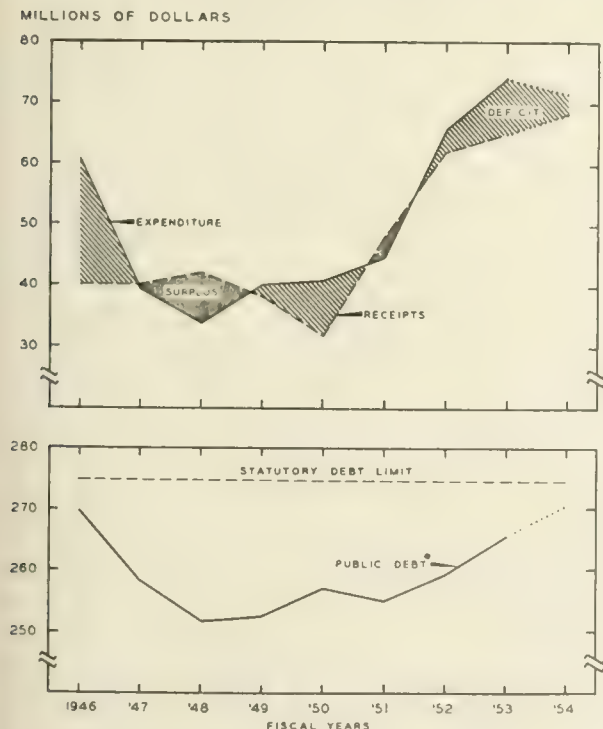
	August 1953	July 1953	August 1952
Civilian labor force...	64,648	64,668	63,958
Employment.....	63,408	63,120	62,354
Agricultural	7,274	7,628	6,964
Nonagricultural	56,134	55,492	55,390
Unemployment	1,240	1,548	1,604

## Budget Deficit Reduced

Reduced spending and increased income, resulting in a substantially smaller budget deficit is the outlook for Federal fiscal operations for the year ending June 30, 1954. According to budget estimates released late in August, the Federal government plans expenditures of \$72.1 billion during the fiscal year to end next June. This is \$2.5 billion less than actual expenditures in fiscal year 1953, and a cut of \$6.5 billion from the Budget Bureau's January estimate. Receipts are estimated at \$68.3 billion, \$3 billion above receipts in the fiscal year ended last June. As shown by the accompanying chart, this will result in a budget deficit of \$3.8 billion, compared with fiscal year 1953's peacetime high of \$9.4 billion.

The full effect of tax reductions scheduled for the first half of 1954—estimated at about \$8 billion—will

## FEDERAL BUDGET EXPENDITURES, RECEIPTS, AND PUBLIC DEBT



\* End of fiscal years.

Source: U. S. Bureau of the Budget.

not be reflected in government receipts until fiscal year 1955. Keeping the deficit down to current levels in 1955, therefore, would involve locating additional sources of revenue or drastic cuts in expenditures.

The public debt, which amounted to \$266 billion at the close of fiscal year 1953, was up to \$272.7 billion by the end of July (mainly because the Treasury issued \$6 billion of tax anticipation certificates in July). Since \$600 million of the present debt is not subject to the \$275-billion statutory debt limit, the Treasury Department may still borrow about \$3 billion without exceeding the debt limit. Although the margin between the present debt and the authorized limit is smaller than Treasury officials desire, they now seem convinced that the government can get through the last half of 1953, when tax receipts are seasonally low, without asking for a special session of Congress to raise the limit.

## Installment Borrowing Increases

Consumers added another \$166 million to their debt during July, raising total consumer credit outstanding at the end of the month to \$27.2 billion. This was almost \$4.5 billion above consumer credit in July a year ago. It amounted to 10 percent of disposable income, not significantly changed from the ratio of consumer credit to income last year when disposable income was also lower.

All of the advance between June and July was concentrated in installment loans—mainly for financing automobile purchases—which advanced \$.4 billion to \$20.9 billion. Noninstallment credit, which includes single-payment loans, charge accounts, and service credit, declined slightly to \$6.4 billion.

Loans to business firms, after declining seasonally to a low for this year in July, moved up slightly during August to total almost \$23 billion in the week ending September 2. This was about 9 percent above their level at the end of August a year ago.

## Farm Assets Decline

Declining agricultural prices and reduced farmers' net cash income were accompanied by a decline in the value of farm assets in 1952. The \$165.4 billion total at the end of the year was \$3.3 billion lower than at the beginning. Previously, farm assets had increased in every postwar year except 1949, when commodity prices fell. Last year's decline, according to the Department of Agriculture's annual "Balance Sheet of Agriculture," centered in lower valuations for farm real estate and livestock. Together, these were down \$6.1 billion from their value in 1951. This decrease was in part offset by advances in other assets. Machinery and motor vehicle assets rose 7 percent to \$17.2 billion, stored crops were up 3 percent to \$9.1 billion, household furnishings increased 8 percent to \$10 billion, and farmers' financial assets advanced about \$700 million to \$20 billion.

On the liabilities side, farmers boosted their indebtedness by 10 percent to a total of \$15.9 billion. The dominant factors in this advance were an increase of \$500 million in farm mortgage debt, up 8 percent to \$7.1 billion during 1952, and a rise of \$600 million in price support loans made or guaranteed by the Commodity Credit Corporation, which expanded slightly more than 100 percent in 1952.

The combined effect of the decline in assets and increased liabilities was to reduce farm operators' equity by

3 percent to \$149.5 billion. Nevertheless, farmers' equity was 3 times larger in 1952 than in the immediate prewar period.

## Personal Income Continues Rise

Personal income in July amounted to an annual rate of \$288.1 billion, up almost \$2 billion from the previous month and \$22 billion, or 8 percent, higher than in July, 1952. More than three-fourths of the gain over June reflected the continued rise in private industry payrolls, with nondurable goods industries and contract construction accounting for the bulk of the advance. In other sectors payrolls remained stable or moved up only fractionally.

For the first seven months of 1953 personal income, at an annual rate, amounted to \$283.8 billion, 7 percent above the first seven months of last year.

## Construction Outlays Maintain Record

Construction activity continued at a brisk pace during August. Expenditures for total public and private housing amounted to \$3.3 billion, about 7 percent above construction outlays a year ago. For the first eight months of this year construction outlays totaled \$22.7 billion, 8 percent higher than those in the same period of 1952. Construction costs were up slightly between the two eight-month periods so that the rise in physical volume was more moderate.

Spending for private construction was somewhat retarded in August because of a decline for the second successive month in expenditures for new residential dwelling units. This decline reflects the slackening in housing starts that has occurred in recent months (see chart). Although housing starts in the first seven months of 1953 were well below the record months of 1950, they were roughly in line with the high level of starts in the first seven months of 1952 and 1951. In the January to July period of 1953, housing starts totaled 674,500, slightly above the corresponding period of last year and less than 1 percent below 1951. Department of Commerce

economists attribute some of the recent tapering off to "a more cautious appraisal of the markets for new homes by speculative builders, perhaps associated with increased difficulty of selling old houses."

Even considering the recent decline in new housing starts, however, government economists predict construction outlays may reach a record \$34.5 billion in 1953.

## Sharp Advance in Gross National Product

Gross national product advanced sharply in the second quarter to \$372.4 billion (seasonally adjusted, at an annual rate), up more than \$10 billion from the first quarter and \$27 billion above the second quarter of last year. Prices increased only fractionally during the second quarter, so that almost all of the rise represented a larger physical volume of production.

Dominating the second quarter increase in GNP was a \$6-billion rise in the flow of goods into inventories. This was in contrast to the movement between the fourth quarter of 1952 and the first quarter of this year when the rate of inventory accumulation fell sharply. According to the Department of Commerce the current upsurge in inventory accumulation is believed to represent, for the most part, a filling out of stocks in support of increased business activity.

### GROSS NATIONAL PRODUCT OR EXPENDITURE (seasonally adjusted, billions of dollars at annual rates)

	2nd Qtr. 1953	1st Qtr. 1953	2nd Qtr. 1952
Gross national product.....	372.4	362.0	345.1
Personal consumption.....	230.4	227.7	217.2
Durable goods.....	30.7	30.2	27.4
Nondurable goods.....	122.1	121.2	118.0
Services.....	77.6	76.3	71.8
Domestic investment.....	61.0	54.0	49.6
New construction.....	25.3	25.0	23.4
Producers' durable equipment..	26.9	26.2	25.6
Change in business inventories..	8.8	2.9	.7
Nonfarm inventories only.....	8.7	2.6	—1
Foreign investment.....	-2.5	-2.1	.5
Government purchases.....	83.5	82.4	77.7

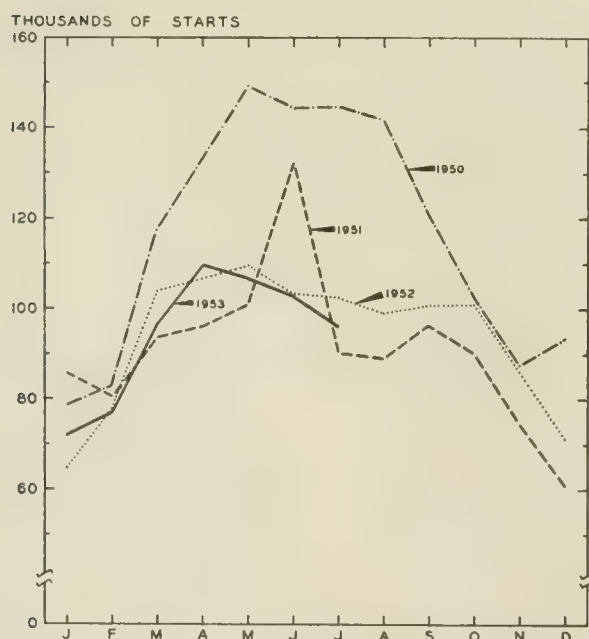
### INCOME AND SAVINGS

National income.....	n.a.	306.5	287.9
Personal income.....	284.4	281.6	266.0
Disposable personal income.....	247.7	245.4	231.7
Personal saving.....	17.2	17.7	14.5

Personal consumption expenditures moved up in the second quarter by almost \$3 billion to over \$230 billion. The rise from the second quarter of last year amounted to \$13 billion, about the same advance that occurred between the second quarters of 1951 and 1952. Consumer expenditures for durable goods increased slightly to \$31 billion in the second quarter, their highest level since the first quarter of 1951. Purchases of nondurables were up \$1 billion between the first and second quarters to \$122 billion, \$4 billion above their level a year ago; and consumer spending for services increased more than \$1 billion to \$78 billion, maintaining the steady advance that has occurred in this segment during the past several years.

Private new construction and capital investment expenditures together increased by \$1 billion to continue the moderate rise in evidence in these sectors since the third quarter of last year. Government expenditures for goods and services rose more than \$1 billion in the second quarter, as a \$2 billion increase in national security expenditures, mainly for major procurement items and new construction, more than offset a decline in civilian purchases of a little less than \$1 billion.

## HOUSING STARTS



Source: Bureau of Labor Statistics.



# BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

## Forecasting Accuracy

How well businessmen forecast the future is the subject of a new University of Illinois bulletin, *The Railroad Shippers' Forecasts* by Robert Ferber. Investigating and analyzing the forecasts of the Regional Shippers Advisory Boards of the Association of American Railroads is the objective of the study. These forecasts have been made on a quarterly basis since 1927 and represent the expected shipments of railroad users. The forecasts are published for each of 13 regions and for about 31 industry groups within each region as well as on a nation-wide basis.

In the new bulletin, Mr. Ferber has investigated both the accuracy of the carloading forecasts and the factors that appear to influence them. He shows that the accuracy of these forecasts leaves much to be desired and develops some interesting explanations of why they deviate from actual trends so frequently. *The Railroad Shippers' Forecasts* is available for \$1.00 from the Bureau of Economic and Business Research, University of Illinois, Urbana, Illinois.

## Stainless Steel Entrances

Uses for stainless steel in a variety of store fronts and building entrances in various parts of the country are described in a new two-color, 40-page illustrated booklet recently published by the American Iron and Steel Institute. Titled *Stainless Steels for Store Fronts and Building Entrances*, the booklet begins with a definition of the functions of an entrance as a merchandising tool and cites the advantages of using stainless steel. A number of economical designs are sketched and a specification guide is included.

The booklet is one of a series on the use of stainless steels for architectural or construction purposes, and is available free of charge from the Committee of Stainless Steel Producers, American Iron and Steel Institute, 350 Fifth Avenue, New York City, New York.

## Energy Supply

The total supply of available energy in the form of crude oil, natural gas, coal, and water power in 1952 amounted to 38,773 trillion British thermal units—1.7 percent below the all-time high of 39,457 trillion B.t.u. established in 1951. In 1920 the grand total was only 21,956 trillion B.t.u. The accompanying chart shows the change in the share of all United States energy supplied by petroleum, coal, and water power from 1920 to 1952. It measures trends in total demand rather than how much any one fuel has replaced another.

As is shown by the chart, the percent of total energy from water power remained about the same between 1920 and 1952, whereas the share supplied by coal declined correspondingly to the increase in energy supplied by petroleum and natural gas. This is due in large part to the development of the gasoline engine, which has provided new uses for petroleum. More than half of all the oil produced today is used in the form of gasoline, kerosene, and lubricants, for which purposes coal cannot well compete. Nearly half of the natural gas marketed is used in the field for drilling or operating oil and gas wells and pipe lines, or for the manufacture of carbon black.

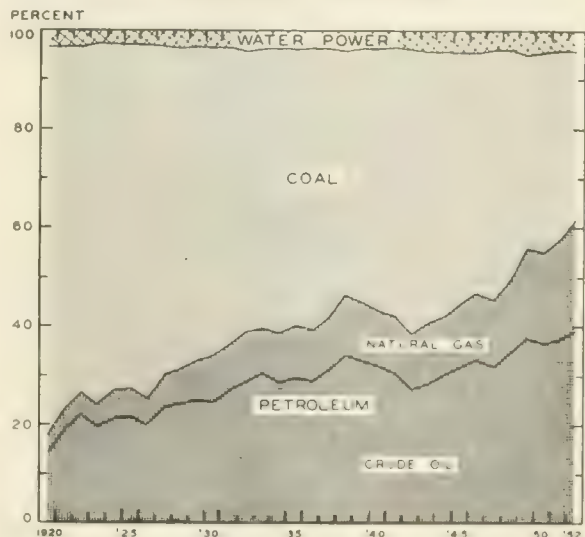
## Squeakproof Doors

A "squeakproof" door hinge employing nylon bearings in place of regular ball bearings has been developed by H. S. Getty and Company, Inc., 3348 North 10th Street, Philadelphia, Pennsylvania. The hinge is made primarily of bronze but has a stainless steel pin. The interior of the barrel is bushed in nylon. Flange bearings are attached in each knuckle and won't fall out when the hinge leaves are separated. In addition to eliminating the "squeaking door," nylon bearings do not require lubrication, create no vibration, and are not affected by corrosion. Resistance to rust makes the hinge particularly useful on seagoing vessels, although it was also designed for installation in homes and public buildings. Produced in sizes ranging from 3½ to 6 inches in length, the squeakproof item, according to the manufacturer, can be sold at a lower price than conventional ball-bearing hinges because nylon is molded—not cast or stamped—and because the new bearing eliminates some machinery operations in the manufacturing process.

## New Type Load Lifter

A fork-lift truck that has a gasoline-powered engine with electrical transmission will soon be available from the Automatic Transportation Company, 149 West 87th Street, Chicago, Illinois. The first of its kind to be manufactured on a mass-production basis, the unit has an electric generator driven by a gasoline engine. The engine, in turn, supplies electrical power for the truck and lift. Called "Dynamotive," the new equipment features changes both in design and in appearance. Because of its electric transmission, there is no direct connection between the engine and wheels, and therefore transmission shock loads to the engine are also entirely eliminated, assuring maximum engine life. The new truck offers greater vision from the driver's seat; a full-size bench-type seat; extra leg room; centralized controls; and grouping of all instruments on the steering column.

DISTRIBUTION OF TOTAL U. S. ENERGY BY PRINCIPAL SOURCES



Source: U. S. Department of the Interior

# PROSPECTS FOR RETAIL TRADE

GEORGE W. MAXEY

Marketing Specialist, Business Management Service

Today more goods are available for consumption than ever before, and the growth of industry ensures further increases. It will be up to the consumer to absorb the expanded volume of goods produced; but the level of retail sales in the near future will also depend on the initiative retailers take in the areas of public relations, new processes, sales training programs, and better merchandising.

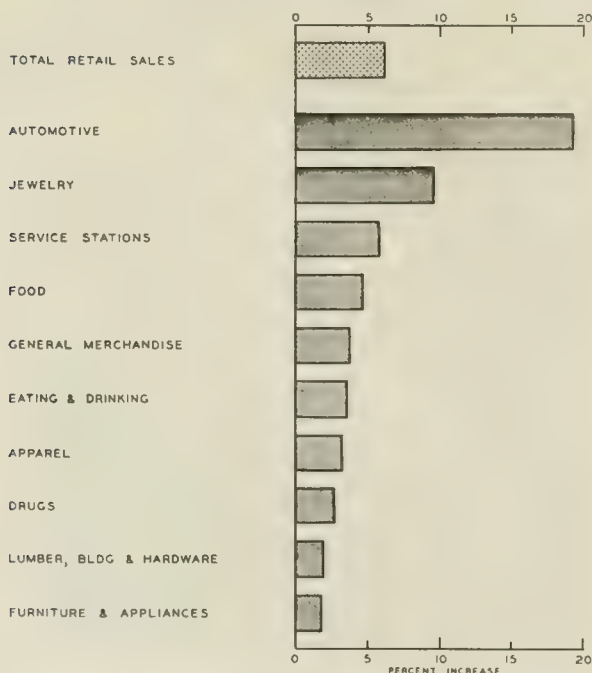
This kind of situation has not existed for some time. For the last twelve years, shortages of consumer goods and government controls have affected competitive relations. Now that merchandise is in full supply and credit is no longer controlled, competition for the consumers' dollars will intensify.

At present, it may not appear necessary to be concerned about the problem, since retail sales for the first seven months of 1953 are well ahead of sales for the same period in 1952. There is little to indicate that the balance of the year will be any different. However, looking ahead, it appears likely that retailers who most adequately present merchandise to consumers and perform the best services for consumers will be in the best position to meet the coming competitive challenge.

## Retail Sales

Retail sales, approaching \$14.3 billion in July, exceeded the July, 1952, level by slightly more than 6 percent. However, there is little evidence to support any expectation of a further rapid increase in retail sales. Now that an armistice has been signed in Korea, a general leveling off is more probable, with a few soft spots beginning to show up, as a review of recent trends in different types of retail sales indicates.

CHANGE IN RETAIL SALES, Jan.-July, 1952,  
to Jan.-July, 1953



Source: U. S. Department of Commerce.

So far this year, retail sales have exceeded last year's level by 6.2 percent, as shown by the accompanying chart. Sales of durable goods have risen more than those of nondurable goods, the former up by 11 percent as against an increase of about 4 percent in nondurable goods sales.

Pacing the rise in durable goods sales has been a jump of almost one-fifth in automotive sales. The demand for cars, bolstered by the removal of credit restrictions, has reached near-record proportions. During the first half of this year production was maintained on a high level in anticipation of peak sales during the summer months. Output for the year as a whole may be close to the all-time record of 6.7 million cars rolled off assembly lines in 1950.

The only other durable goods group to register a marked increase over last year is jewelry, sales of which were nearly 10 percent higher in the first seven months of 1953 than in the same period of 1952.

Nondurable goods sales for the first seven months of 1953 were nearly 4 percent ahead of the same period of 1952, with the general merchandise group running about the same percent ahead of 1952. Apparel sales were also in line with the total, showing an average gain of 3.2 percent in the first seven months of 1953 over 1952.

The volume of business of food stores and eating and drinking places has also been good, averaging 4 to 5 percent over the preceding year.

The average increase over 1952 for gasoline service stations is between 5 and 6 percent. A decline in July, as compared with June, of 2.1 percent warrants attention since an increase was anticipated. Should sales continue to decline, service stations may not do as much business in 1953 as they did last year.

Always an important barometer of general activity at the retail level, department stores reached a seasonal low in sales for the month of July, 1953, according to the Federal Reserve Board index of department store sales. The Board's index recorded department store sales at 80 percent of the 1947-49 average. This in itself is not unusual, since the low for July, 1952, was the same; and in 1951 sales dropped to 75 percent of the 1947-49 average. Out of 58 individual departments reporting, 38 indicated gains in sales during the early months of 1953 whereas the remaining 20 reported either no change or a decrease of from 1 to 14 percent.

Total department stores sales for the first eight months of this year have averaged 4 percent above the corresponding months of 1952. All indications point to a banner year for department stores with the final results for 1953 exceeding 1952 figures by about 6 or 7 percent.

Retail inventories in relation to sales reflect the degree of caution merchants feel about business in the future. During January, 1952, retail sales were \$13 billion. At the same time, retail inventories were \$20.6 billion. The ratio of inventories to sales was 1.58. January, 1953, inventories were \$20.7 billion. Sales at the time were \$14.1 billion. The ratio of inventories to sales at this time was down to 1.46.

During the first seven months of 1952 the sales total rose \$1 billion to \$14 billion, and over the same period, inventories dropped to \$20.1 billion. This produced a



ratio of 1.43, but the decline in inventories was partly the result of the steel strike. An examination of the reports covering the first seven months of 1953 indicates that inventories rose to nearly \$22 billion at the end of July whereas sales were \$14.3 billion. The ratio of inventories to sales for July, 1953, therefore, at 1.54, was slightly higher than last year.

### Factors Affecting Retail Trade

Of the more basic factors affecting the outlook for retail sales, population, income, taxes, and the credit picture are perhaps the most important. A brief review of each of these factors will serve to place the outlook for retail sales in proper perspective.

**Population.** The population of the United States is continuing to rise at a rapid rate. The 1950 Census count came to 151.7 million people. More than 2.5 million people were added during each of the last three years. Recently, the Federal government reported that the population had reached 160 million. Latest predictions indicate that by July, 1954, the population will total 162 million; and by 1960, there will be approximately 175 million people requiring food, clothing, housing, and all other necessary goods and services.

Incomes and employment have also been expanding. Wage rates in industry are at an all-time high. Unemployment, now at 1.2 million, has fallen to a minimum. This growing population, with an increasing rate of income, is the current market for all goods and services provided by retailers. The effect on retail sales revolves around the amount they will spend, how much they will be willing to go into debt, and for what products and services.

**Personal Income.** Consumer incomes are high and are expected to go somewhat higher. Personal income before taxes now approaches \$288 billion at annual rates. Disposable income amounts to about \$247 billion. In view of government attempts to economize, the consuming public, rather than the government, must be depended upon to maintain high level activity and consumption. This could result if there were a reduction of consumer savings, but no such reduction can be relied upon. Farm income has already lagged behind nonfarm income, and no change for the better is anticipated in view of the effects of record crops on prices. What effect farm income may have in further depressing retail trade, however, is questionable, as the decline has already been felt in retail markets.

**Credit.** Short- and intermediate-term credit outstanding at present exceeds \$27 billion. In view of the fact that debt has been expanded so rapidly, credit cannot be expected to contribute much more to sales. This fact, considered along with the present rate of disposable income, permits one to calculate the probable sales to be expected in the near future. A look at the figures on disposable income suggests that greater sales efforts on the part of retailers will be the rule rather than the exception during the coming months.

**Consumer Finances.** Recent statistics on consumer finances reveal that consumers are better off this year than they were in 1952. The Board of Governors of the Federal Reserve System reported in the *Federal Reserve Bulletin* for June, 1953, that more consumers have liquid assets than in the previous year. However, with the level of consumer debt higher than in 1952, a question arises as to the extent to which consumers have purchased durable goods on credit while still holding liquid assets.

Many who have bought automobiles, television sets, and other durable goods on credit do not have liquid assets in reserve to cover such debts. Net personal savings exceeded \$17 billion, at annual rates, in the second quarter of this year. Amounting to 7 percent of disposable income, this level of savings is not excessively high. These current savings indicate a desire on the part of consumers to establish or maintain a degree of liquidity. Any increase in the proportion of income going into savings may partly offset the advance in incomes and adversely affect the retail sales picture.

**Taxes.** Income taxes have been at a very high level, but a reduction will be made in 1954. This reduction will release an estimated \$3 billion, and a good part of this amount will flow into retail markets. The reduction in personal income taxes is the most definitely favorable factor in 1954.

### Summary

It appears that the present high level of business activity will continue throughout the rest of 1953. Retail sales will probably be maintained at high levels for the rest of the year. The early months of 1954 should begin to reflect the result of high productivity of all consumer goods coupled with the satisfaction of many consumer demands between 1946 and 1953. Some soft spots are now apparent, and the future volume in some lines is not clear.

With incomes high and inclined to go higher, continued spending by consumers should be expected but, as pointed out earlier, consumers are now in a position to be more selective in their purchasing. They will expect—possibly demand—courteous service, complete product information, and efficient sales people to serve them. Emphasis on sales training and public relations for retailers will be important as it never has been before.

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### This Rampant Pessimism

(Continued from page 2)

This does not mean, however, that the so-called cyclical industries are immediately faced with depression. By and large, the position of heavy industry is well protected. If a moderate decline can be reasonably expected, it will affect profits with corresponding moderation. Moreover, there seems to be little appreciation of how important a cushion to declining profits is provided by various provisions of present corporate income and excess profits tax laws.

The other arguments of the pessimists are even less persuasive. The emphasis that has been given to recent "declines" in residential construction has little justification in fact. Until July, recent changes in new housing starts were following a seasonal pattern much like that of last year. What is remarkable about the latest figure is that starts remained so high in the face of what the Department of Commerce describes as "a more cautious appraisal of markets by speculative builders."

Let's concede the point that whenever business is at an extreme high, some letdown is probable. Minor fluctuations within the range of a full employment economy are in fact inevitable. If such a dip is likely to occur in the next few months, so what? There may indeed be a need for caution, but there is no occasion for making it the basis for panic. The current boom is durable enough to justify policies consistently adapted to prosperity conditions.

VLB

# LOCAL ILLINOIS DEVELOPMENTS

With the exception of farm prices received and petroleum production, Illinois business indicators in July were well above the level of the same month a year ago. Increases of 22 percent or more over July, 1952, occurred in electric power production, coal production, construction contracts awarded, and life insurance sales.

## Consumer Price Index at Record High

The Chicago consumer price index reached an all-time high during July when it rose 0.3 percent to 115.7 (1947-49 = 100), according to the Bureau of Labor Statistics. July was the fourth consecutive month that consumer prices edged upward in Chicago. Primarily responsible for the rise in the index from June were increases reported for medical care, housing, transportation, reading and recreation, and food.

## Working Women

The number of employed women is on the increase. Of the nine major labor areas in Illinois, Springfield reported the largest proportion of women in the non-agricultural labor force—43 percent in March, 1953. Chicago ranked second with 36 percent of all nonfarm workers being women. Other labor centers in the State reported the following proportions of women employees: Rockford and Aurora, 30 percent; the Illinois section of the Davenport-Rock Island-Moline area, 28 percent; Joliet and Decatur, 27 percent; and Peoria-Pekin and the Illinois section of the St. Louis area, 24 percent.

The number of mothers in the labor force has also been steadily increasing since 1940. This is due in part to the increase in working mothers during the war and partly to financial stringency caused by high postwar living costs. According to a United States Department of Labor study, by 1951 one out of every four working women was a mother with children under 18 years of age as compared with one mother out of every nine women in the labor force in 1940.

## Illinois Income

Increases in Illinois income payments have not kept pace with the nation as a whole, according to the latest figures issued by the Department of Commerce. State residents received \$17.7 billion in income payments during 1952, a gain of 4 percent over 1951; but total United States income rose 5 percent in the same period. Construction payrolls increased most in Illinois from 1951 to 1952, up 12 percent, whereas agricultural income in 1952 was 13 percent below the preceding year, and mining payrolls were off 8 percent.

Per capita income payments in the State rose 3 percent as compared with a 4 percent rise for the nation as a whole. Ranking seventh among the states in per capita income, Illinois income payments in 1952 averaged \$1,983 for each man, woman, and child in the State. Wages and salaries comprised over seven-tenths of the State's total income, whereas proprietors' income amounted to about one-eighth of the total and property income to about one-ninth. Other income totaled 4 percent.

Manufacturing payrolls and trade and service establishments were the two leading sources of income in Illinois, together accounting for over half of the 1952 total. Other sources were government payments (12 percent of the total), agricultural income (5 percent), construction (4 percent), and mining (1 percent).

## Farm Prices Recover

The all-commodity index of prices received by Illinois farmers rose during the month ended July 15 to 278 percent of the 1910-14 level, a 7 percent increase over mid-June but 6 percent short of the July 15, 1952, figure. An advance in meat prices accounted chiefly for the gain over June. The Illinois parity ratio stood at an even 100 in mid-July, 6 points higher than in June, but 3 points less than in July, 1952. Illinois farmers were in a favorable position, however, compared with the nation as a whole, since the parity ratio for the United States in July was down to 93.

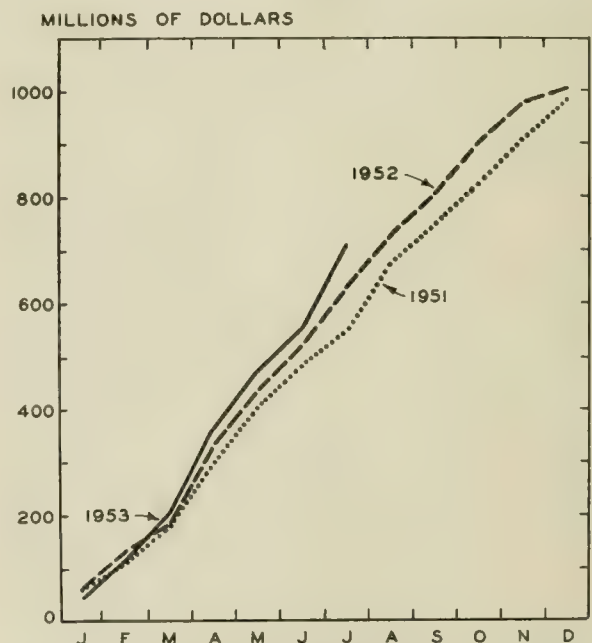
## July Construction High

Construction contracts awarded in Illinois sprinted upward during July largely because of a sharp increase in nonresidential building in the northern portion of the State. July awards—highest of any month this year to date—totaled \$154.5 million, up 88 percent from June and 42 percent from July, 1952.

Contracts for nonresidential buildings were more than triple the June valuation and double the July, 1952, total. Most of the gain resulted from increased commercial construction, but contracts awarded for manufacturing buildings, educational buildings, and other nonresidential construction were also greater than in June.

The accompanying chart shows cumulative annual totals of construction contracts awarded in Illinois—obtained by adding successive months to indicate the total for the year up to that point. At the outset of this year, contracts awarded were below the 1951 and 1952 valuations, but since March, the 1953 total has gradually risen above the levels of the past two years. By the end of July, cumulative awards in 1953, at \$710.8 million, were running 12 percent ahead of the comparable period in 1952 and 28 percent above the same months of 1951.

CONSTRUCTION CONTRACTS AWARDED  
(Cumulative)



Source: F. W. Dodge Corporation.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

July, 1953

	Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b> .....	\$28,773 <sup>a</sup>	930,334 <sup>a</sup>	\$570,253 <sup>a</sup>		\$12,748 <sup>a</sup>	\$11,030 <sup>a</sup>
Percentage Change from.....						
{ June, 1953.....	+3.7	+1.4	-2.1	-20	-3.8	-11.7
{ July, 1952.....	-8.5	+15.7	+12.4	+5	+6.2	+3.5
<b>NORTHERN ILLINOIS</b>						
<b>Chicago</b> .....	\$20,524	726,387	\$418,503		\$11,643	\$9,613
Percentage Change from.....						
{ June, 1953.....	+1.1	+2.9	-1.2	-20	-3.8	-12.2
{ July, 1952.....	-6.0	+17.0	+13.3	+5	+5.8	+3.2
<b>Aurora</b> .....	\$ 251	n.a.	\$ 8,064		\$ 47	\$ 81
Percentage Change from.....						
{ June, 1953.....	0.0		-2.5	-34	-5.6	-10.8
{ July, 1952.....	-70.6		+12.2	-3	+14.0	+6.9
<b>Elgin</b> .....	\$ 326	n.a.	\$ 5,721		\$ 28	\$ 69
Percentage Change from.....						
{ June, 1953.....	-34.0		-3.3	n.a.	-12.5	-19.7
{ July, 1952.....	+15.6		+11.2		+6.4	+5.7
<b>Joliet</b> .....	\$ 705	n.a.	\$12,761		\$ 63	\$ 62
Percentage Change from.....						
{ June, 1953.....	+29.1		+0.2	-23	-1.6	-14.7
{ July, 1952.....	-69.4		+22.8	+6	+27.7	+14.5
<b>Kankakee</b> .....	\$ 192	n.a.	\$ 5,389		n.a.	\$ 29
Percentage Change from.....						
{ June, 1953.....	-34.7		-11.2	n.a.		-0.6
{ July, 1952.....	-42.7		+2.4			-0.7
<b>Rock Island-Moline</b> .....	\$1,217	19,289	\$10,548		\$ 84 <sup>b</sup>	\$ 121
Percentage Change from.....						
{ June, 1953.....	+38.5	-2.8	-4.9	n.a.	-10.0	-19.7
{ July, 1952.....	-10.8	+23.2	+8.1		+9.6	-5.6
<b>Rockford</b> .....	\$1,559	27,778	\$17,240		\$ 133	\$ 151
Percentage Change from.....						
{ June, 1953.....	+122.4	-8.6	-5.0	-28	-13.1	-5.8
{ July, 1952.....	-4.5	+18.9	+15.5	+3	+8.5	+14.4
<b>CENTRAL ILLINOIS</b>						
<b>Bloomington</b> .....	\$ 199	6,248	\$ 6,716		\$ 59	\$ 67
Percentage Change from.....						
{ June, 1953.....	-5.7	+2.7	-7.5	n.a.	-4.5	-43.5
{ July, 1952.....	+111.7	+10.1	+22.4		+20.2	-25.0
<b>Champaign-Urbana</b> .....	\$1,018	7,473	\$ 7,374		\$ 53	\$ 74
Percentage Change from.....						
{ June, 1953.....	+132.4	-1.5	-13.0	n.a.	+0.5	+13.2
{ July, 1952.....	+331.4	-0.7	-2.8		+1.8	+17.1
<b>Danville</b> .....	\$ 223	8,137	\$ 6,220		\$ 43	\$ 54
Percentage Change from.....						
{ June, 1953.....	-47.4	-1.7	-8.2	-21	+0.2	+29.8
{ July, 1952.....	+8.8	+6.7	+1.4	+5	+0.4	+21.5
<b>Decatur</b> .....	\$1,042	22,249	\$10,439		\$ 92	\$ 97
Percentage Change from.....						
{ June, 1953.....	+166.5	-0.4	+0.3	-15	+8.3	+2.4
{ July, 1952.....	+245.0	+9.8	+10.6	+8	+12.1	+7.1
<b>Galesburg</b> .....	\$ 126	6,110	\$ 4,315		n.a.	\$ 35
Percentage Change from.....						
{ June, 1953.....	-54.8	-7.3	-3.3	n.a.		+25.7
{ July, 1952.....	-13.7	+5.2	+9.1			+16.9
<b>Peoria</b> .....	\$ 305	41,111 <sup>c</sup>	\$18,082		\$ 206	\$ 194
Percentage Change from.....						
{ June, 1953.....	-39.5	-13.3	-4.7	-24	-1.1	-10.5
{ July, 1952.....	-40.8	+12.5	+6.4	+8	+16.9	+10.3
<b>Quincy</b> .....	\$ 202	6,592	\$ 5,083		\$ 34	\$ 65
Percentage Change from.....						
{ June, 1953.....	-22.9	-6.2	+0.0	-23	-5.2	+3.8
{ July, 1952.....	-5.2	+5.6	+8.2	-2	+5.8	+3.5
<b>Springfield</b> .....	\$ 308	26,755 <sup>c</sup>	\$14,289		\$ 99	\$ 195
Percentage Change from.....						
{ June, 1953.....	-74.2	+4.3	+2.6	n.a.	-3.2	-10.1
{ July, 1952.....	-53.5	+7.1	+11.3		+14.6	-0.9
<b>SOUTHERN ILLINOIS</b>						
<b>East St. Louis</b> .....	\$ 362	13,954	\$ 9,759		\$ 127	\$ 60
Percentage Change from.....						
{ June, 1953.....	+22.7	+6.9	-13.4	n.a.	-1.8	+1.7
{ July, 1952.....	+49.6	+13.3	+6.4		+0.3	+30.9
<b>Alton</b> .....	\$ 188	12,214	\$ 5,098		\$ 36	\$ 28
Percentage Change from.....						
{ June, 1953.....	+18.2	+7.8	-7.0	n.a.	-16.2	+6.1
{ July, 1952.....	+19.0	+4.2	+5.7		+14.8	+17.1
<b>Belleville</b> .....	\$ 26	6,039	\$ 4,652		n.a.	\$ 35
Percentage Change from.....						
{ June, 1953.....	-79.7	+7.7	-1.0	n.a.		+6.1
{ July, 1952.....	-67.1	+11.8	+11.2			+7.6

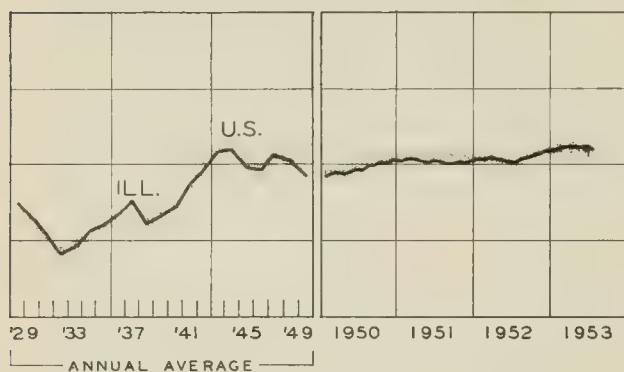
<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.

Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for June, 1953, the most recent available. Comparisons relate to May, 1953, and June, 1952. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

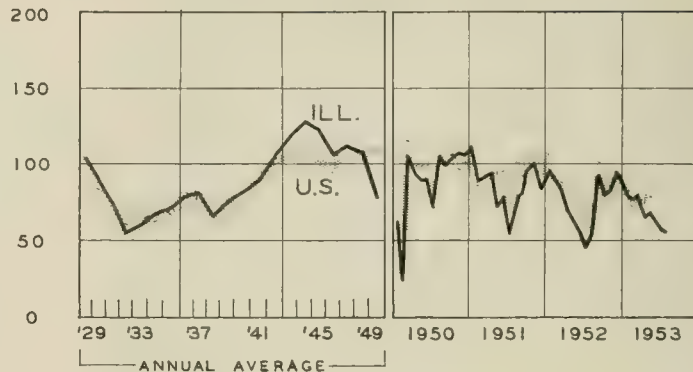
# INDEXES OF BUSINESS ACTIVITY

1947-1949=100

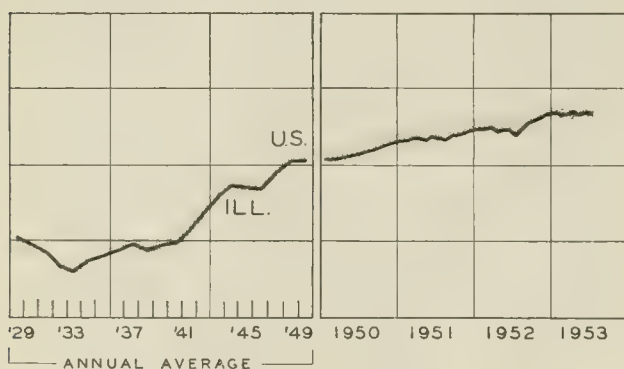
## EMPLOYMENT - MANUFACTURING



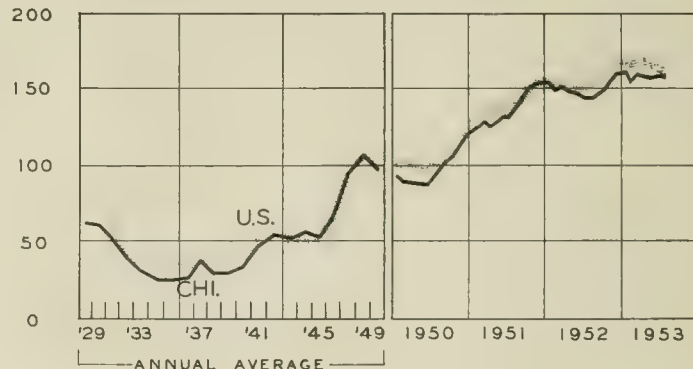
## COAL PRODUCTION



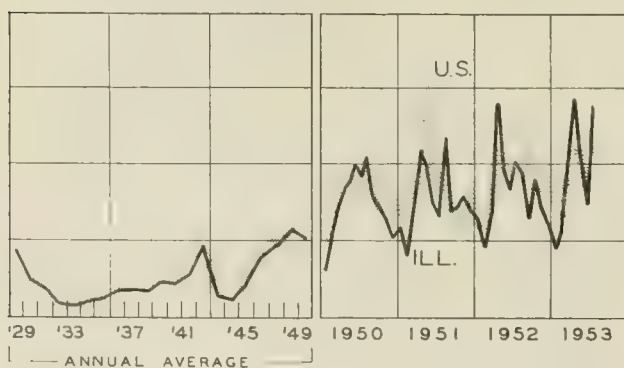
## AVG. WKLY. EARNINGS - MANUFACTURING



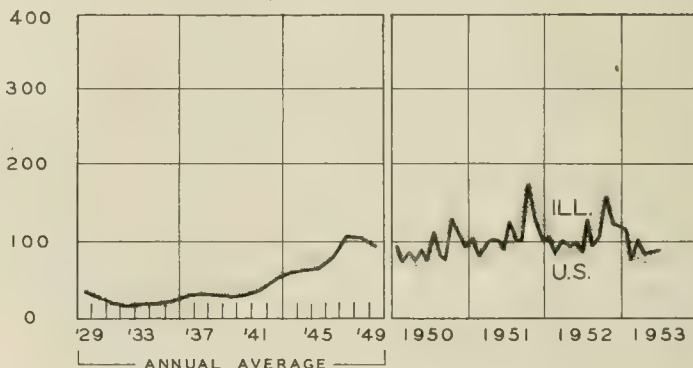
## BUSINESS LOANS



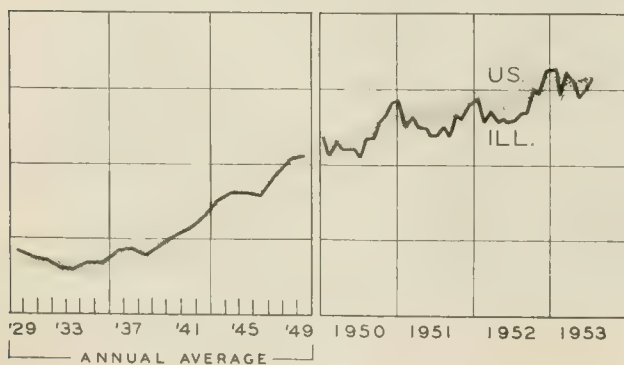
## CONSTRUCTION CONTRACTS AWARDED



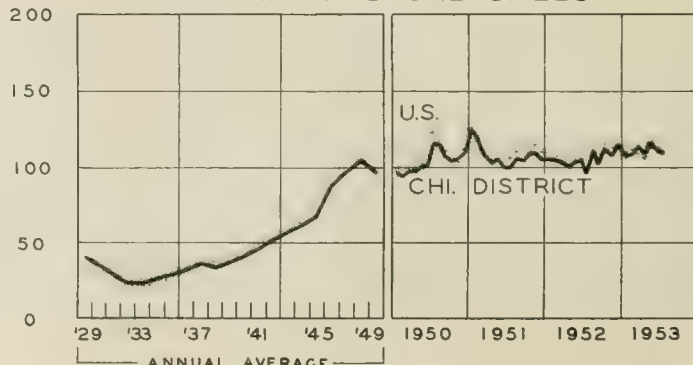
## CASH FARM INCOME



## ELECTRIC POWER PRODUCTION



## DEPARTMENT STORE SALES





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# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
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## HIGHLIGHTS OF BUSINESS IN SEPTEMBER

Fears of a possible recession were spurred in September by a two-point decline in the Federal Reserve index of industrial production and by reports of surpluses of various commodities. The more optimistically inclined took heart from the fact that the decline was almost wholly due to reduced production in two industries—steel and autos—and was not widespread. That selective adjustments were in process in September, however, was pointed up by the existence of surpluses of such commodities as autos, petroleum, farm machinery, and copper, which were accompanied by corresponding reductions in output or price.

More favorable aspects of the business scene were the maintenance of peak levels of construction and of other investment outlays, continued high consumer expenditures as evidenced by retail and department store sales reports, and the easing of interest rates.

### Unemployment Low

Further evidence that industrial activity was maintained near peak levels is supplied by the fact that unemployment in September remained at the postwar low of 1.2 million.

Nonfarm employment declined by 1 million largely because of the annual return of students to school from summer jobs. Nevertheless, at 55.0 million, the number of people employed in the nation's businesses, mines, and factories still exceeded the number so employed last year. At the same time, the proportion of wage earners in factory jobs who averaged 40 hours per week in the September survey week equaled or exceeded the corresponding figures for the September 1950 and 1951 survey weeks, which also contained Labor Day.

Farm employment remained at the August level of 7.3 million as students leaving farm jobs were replaced by women taking up farm work temporarily to assist with the harvesting.

### Farm Prices Decline Further

Farm prices continued to weaken in September, with the index of prices received by farmers declining slightly less than 1 percent in the month ended September 15. Price rises in wheat, citrus fruits, tobacco, hogs, and dairy products were not sufficient to offset lower prices for commercial truck crops, beef cattle, and lambs. However, the parity ratio remained unchanged at the August figure of 92, as prices paid by farmers also declined. This figure

was 9 percent below the parity ratio of last September.

Wholesale prices generally registered little change during September, but the Bureau of Labor Statistics sensitive daily index of spot commodity prices dropped nearly 3 percent in the last half of the month. Prices of fats, oils, livestock products, and metals declined the most. Steel scrap prices fell more than 15 percent at the end of the month, as steel mills preferred to work off inventories before making further purchases.

### Construction Activity at Record Levels

Despite fears of a slump in building activity, the construction boom rolled along at record levels. Outlays for new construction in September remained at the August peak rate of \$3.3 billion, as a seasonal decline in homebuilding was offset by a contra-seasonal rise in commercial building and by continued record levels of public utility construction. As a result, new construction activity in September reached a new peak for the year, 5 percent above last September.

Construction outlays in the first nine months of this year, at nearly \$26 billion, also set a new record, 7 percent higher than a year earlier. The gain was largely accounted for by a 9 percent rise in private spending, chiefly because of sharp increases in commercial and public utility building. Public construction was up 5 percent, largely because of higher expenditures on highways, schools, and construction of other public facilities.

### Inventory Accumulation Slower

The rate of accumulation of business inventories slackened considerably in August. Business inventories at the end of the month were valued at \$77.8 billion, up \$450 million from the end of July after seasonal adjustment. This was a much smaller increase than had taken place in recent months, especially since higher prices accounted for one-third of the rise.

Most of the inventory accumulation in August occurred at the manufacturers' level, with increased holdings reported by nearly all industries. Retailers' stocks, which have risen most during the past year (about 15 percent), rose only slightly and wholesalers' not at all. The total value of business inventories in August was 9.8 percent above the level of August of last year, part of this gain representing recovery from effects of the 1952 steel strike.

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## Our Farm Price Supports

News items originating in rural areas convey the impression that extreme depression prevails. Although some of the scare stories may greatly exaggerate, it seems clear that the fear of recession has affected the farmer's action. For example, hog production dropped another 10 percent this spring; and this reduction in the face of a high hog-corn ratio seems to contain an element of planning for depression. Fear of another setback in hog prices, stimulated in part by the decline in cattle prices, retarded production because corn that would be risked in feeding can be turned over to the government at 90 percent of parity.

### The Accumulation of Surpluses

The depression phobia seems to rule national farm policy also. The accepted view seems to be that farmers can be saved from depression only by all-out government payments. Secretary of Agriculture Benson came into office opposing regimentation and calling for the rule of free market forces, but he soon did an about-face on policy. Surpluses have forced him to institute acreage controls on wheat and may require controls on cotton also. Price supports on these and four other basic crops are mandatory at 90 percent of parity; but where he had authority to lower dairy products to 75 percent of parity, he kept them at the 90 percent figure for the rest of the year. This bowing to political pressures illustrates again the difficulty of abandoning programs set up at the insistence of important producer groups.

Under the wheat agreement, policy has swung from one extreme to the other. Hardly more than a year ago, Secretary Brannan was calling for all-out production in 1953. In August, Secretary Benson set quotas totaling 62 million acres, the minimum permitted by law. The wheat growers voted six to one for the reduction of over 20 percent from last year's 78.6 million acres.

How successful this move will be is hard to foretell. The wheat growers will get around the restriction to the extent that higher yields can be obtained from the allotted acres. Other farmers may grow up to 15 acres of wheat without penalty. In addition, other crops can be planted on the restricted acres, possibly spreading the surplus to other commodities.

At the same time, demand is kept to a minimum by the high prices. This is true not only of domestic markets but of foreign markets. Exports of wheat were off sharply

in fiscal 1953 and again this year, making a total decline of about one-half from fiscal 1952.

Other commodities are similarly affected, and the accumulation of surpluses continues apace. Government holdings of butter, cheese, and dried milk amount to almost a billion pounds. Some 400,000 bales of cotton were placed under loan in September, and it is estimated that the total may reach 5 million bales by next April. Wheat holdings are approaching half a billion bushels. The government investment in price supports amounted to \$3¼ billion at the end of fiscal 1953, more than double the year before. By the end of fiscal 1954 it is expected to approach the \$6 billion statutory limit.

### No Solution in Sight

It is true that in the past we had considerable success in disposing of our surpluses. World War II used up those carried over from the thirties. Drought and disrupted production in the postwar period created a famine emergency, and the foreign aid program again took care of potential surpluses. This history was to some extent repeated after the outbreak in Korea. Today, with production increasing in other parts of the world, there is no such favorable prospect in sight.

Serious food shortages still prevail in various parts of the world, of course, and it might seem sensible to give away our surpluses to the countries that need them. But we are not in the mood for such a program, nor is the rest of the world prepared to accept it. Even some of our recent relief shipments are regarded as dumping, which other producing countries condemn as a form of unfair competition.

Also helping to undermine foreign relations are our attempts, such as import quotas, to protect domestic producers against foreign competition. There is growing support in Western Europe for reopening trade to the East, a traditional source of foodstuffs, and as this move progresses, we shall face a further loss of markets.

Such are the consequences of policy that sets aside the laws of supply and demand. By providing an incentive for peak production and at the same time restricting consumption, it aggravates the surpluses.

### Delusion of the Farm Lobbyists

But pointing out that present policy renders the surplus problem well-nigh insoluble by no means states the whole objection to it. Another undesirable feature of the fixed price supports is that they not only maintain, but increase farm incomes. It does not take much arithmetic to see that if farmers produce 50 percent more than normal and sell at 90 percent of parity, their receipts would not be parity but 135 percent of parity. Thus, whenever a large crop results from particularly favorable weather, or from overplanting of a particular commodity, the farmers producing it gain a substantial advantage. We have heard no one claim that they should be rewarded for either accidents of weather or mistakes of management, but that is the implication of the present system.

Not only does the program confer special benefits on a particular group, but it does so at the expense of others. It in effect imposes a double tax on the consuming public — once in higher food prices and again in the taxes collected to purchase the surplus. In this way we become a house divided — which, as the Bible tells, cannot stand.

In these circumstances, there is no alternative to revising the program. Many forward-thinking farm leaders

(Continued on page 6)



### WARMING THE NATION'S HOMES

Although crude forms of heating were used before the dawn of written history, improvement in methods and equipment has been made at an amazingly slow rate.

The first furnace was not produced until 1715 and even then it was too expensive and impractical for general use. By 1742 steam had been used for domestic heating, but the real usefulness of steam could not be exploited until the development of the cast-iron radiator almost 120 years later. In the meantime, relatively inefficient oil or coal stoves and fireplaces provided whatever heat was to be had.

Following the development of the cast-iron radiator, little progress was made in heating systems for another half century. Then, the last generation became a period of great gains.

#### Postwar Advances in Heating

Changes took place with exceptional speed after World War II. The adoption of many of the advances made in the years just prior to or during the war were delayed by fuel and material shortages. The postwar years have seen increased use of these innovations and the development of others.

Among the most interesting features of modern heating equipment are the new developments in controls, which affect both the comfort and the safety of the home. Modern controls range from the simple room thermostat of prewar days to the complex indoor-outdoor thermostat, designed to "keep up with the weather." This device automatically changes indoor temperature as outdoor temperatures vary, eliminating discomforting and unhealthful changes of temperature. Advances have also been made in controls for protecting the boiler itself against overheating, or heating when the water level is too low. Inexpensive controls have been designed for use with oil-, gas-, and coal-burning units.

Much of the effortless comfort of modern heating comes as a result of better fuels and increased firing efficiency. Scarcities of oil during World War II and the lack of natural gas pipelines delayed widespread use of these fuels until the postwar years. Today, their adaptability to control and the absence of ash removal problems have won them large numbers of users.

Consumer interest in the postwar period has also been heavily concentrated on radiant heating and baseboard heating. Radiant heating systems, in which hot water or steam pipes are run through walls, floors, or ceilings, can use any fuel and offer a saving in floor space as well as clean, draft-free heating.

Baseboard heating was developed as a result of studies which indicated that the warmth of air near the floor was an important factor in heating comfort. Since conventional heating systems often do not warm this area sufficiently, metal baseboards, through which hot water or steam are pumped, have been developed. These have proven highly satisfactory and when painted are not easily distinguished from conventional baseboards.

#### Year-Round Control of Temperature

Another method of heating developed in recent years — the heat pump — may eventually solve both heating and cooling problems of the homemaker at very low cost. This system uses no fuel, but relies on water pumped from underground formations as its source of heat. In winter, the system operates on a principle similar to the ordinary household refrigerator and extracts heat from the water, then pumps the refrigerated water back into the ground. In summer, the process is reversed and the groundwater is used to absorb the warmth of the air, thus cooling the house. This method is, at present, far too expensive for the average consumer, but it is thought that further development will bring prices down to levels within reach of the mass market.

Forced hot-air systems have been greatly improved as to quiet operation and efficiency and are now being designed in combination with refrigeration units to provide not only hot air in the winter but also cool air in the summer. Up to this time, these seem to provide the most economical cooling system available to the average homeowner.

#### Heating Equipment Manufacturers

Illinois, one of the leading states in the production of heating equipment, has 23 firms employing almost 20,000 workers. Although one of these firms, Crane Company of Chicago, employs almost half of these workers and manufactures a large number of items having to do with heating equipment, the majority of the State's firms employ less than a thousand workers each and specialize in the production of one or two specific items, such as radiant baseboards, steel boilers, humidifiers, or controls. Chicago has the heaviest concentration of heating equipment manufacturers with 11 of the State's 23 firms; Skokie and Rockford each have two. Firms manufacturing heating equipment are also located in Waukegan, Morton Grove, Kewanee, Wyoming, Mendota, Western Springs, Edwardsville, and Litchfield.

In addition to these are large numbers of firms located all over the State which manufacture products such as piping and joints. These are not, strictly speaking, heating equipment but are essential to the installation and use of such equipment.

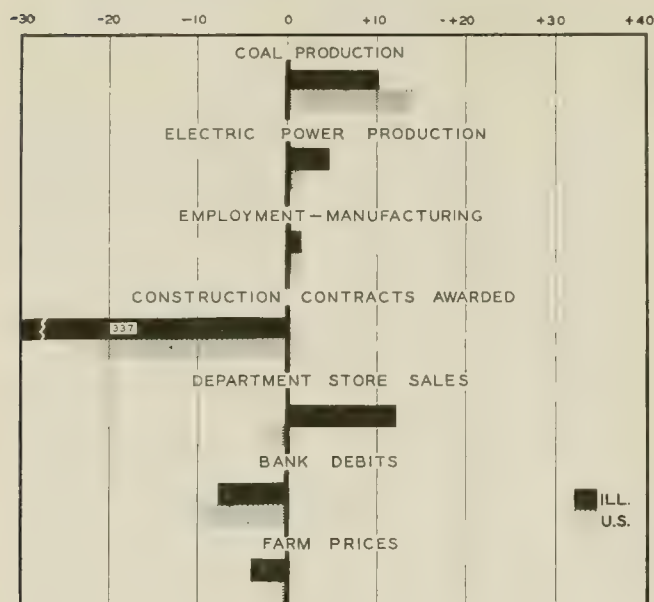
Illinois ranks high not only in the production of heating equipment, but also in the research which has led to many of the improvements in heating methods and equipment in recent years. The focal point for much of this research has been the Research House maintained by the Institute of Boiler and Radiator Manufacturers on the campus of the University of Illinois. In this house, a great deal of the basic research that has resulted in improved heating systems has been done. In a highly competitive industry, the benefits of such research soon reach the public through the struggle to produce the best system at reasonable cost.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes July, 1953, to August, 1953



## ILLINOIS BUSINESS INDEXES

Item	August 1953 (1947-49 = 100)	Percentage Change from July 1953	Percentage Change from August 1952
Electric power <sup>1</sup>	168.1	+ 4.6	+25.4
Coal production <sup>2</sup>	70.2	+10.3	+29.8
Employment—manufacturing <sup>3</sup>	112.0	+ 1.5	+ 7.1
Payrolls—manufacturing	n.a.		
Dept. store sales in Chicago <sup>4</sup>	104.0 <sup>a</sup>	- 1.0	- 3.7
Consumer prices in Chicago <sup>5</sup>	116.3	+ 0.5	+ 0.7
Construction contracts awarded <sup>6</sup>	193.0	-33.7	+ 1.9
Bank debits <sup>7</sup>	135.3	- 7.3	+21.5
Farm prices <sup>8</sup>	104.4	- 3.6	-10.7
Life insurance sales (ordinary) <sup>9</sup>	138.6	-10.5	+15.9
Petroleum production <sup>10</sup>	92.5	+ 2.5	- 0.3

<sup>1</sup> Federal Power Commission; <sup>2</sup> Illinois Department of Mines; <sup>3</sup> Illinois Department of Labor; <sup>4</sup> Federal Reserve Bank, 7th District; <sup>5</sup> U. S. Bureau of Labor Statistics; <sup>6</sup> F. W. Dodge Corporation; <sup>7</sup> Federal Reserve Board; <sup>8</sup> Illinois Crop Reports; <sup>9</sup> Life Insurance Agency Management Association; <sup>10</sup> Illinois Geological Survey.  
<sup>a</sup> Seasonally adjusted. n.a. Not available.

## UNITED STATES MONTHLY INDEXES

Item	August 1953	Percentage Change from	
		July 1953	August 1952
Personal income <sup>1</sup>	Annual rate in billion \$ 287.0 <sup>a</sup>	- 0.2	+ 5.8
Manufacturing <sup>1</sup>			
Sales	306.0 <sup>a</sup>	- 3.8	+16.4
Inventories	46.2 <sup>a, b</sup>	+ 0.9	+ 7.2
New construction activity <sup>1</sup>			
Private residential	13.0	- 1.8	+ 3.7
Private nonresidential	13.2	+ 2.6	+10.9
Total public	13.6	+ 2.4	+ 7.5
Foreign trade <sup>1</sup>			
Merchandise exports	16.2 <sup>c</sup>	- 2.2	+31.0
Merchandise imports	10.9 <sup>c</sup>	- 2.8	+ 8.2
Excess of exports	5.3 <sup>c</sup>	- 1.0	+132.9
Consumer credit outstanding <sup>2</sup>			
Total credit	27.4 <sup>b</sup>	+ 0.8	+19.1
Installment credit	21.1 <sup>b</sup>	+ 1.0	+25.9
Business loans <sup>2</sup>	22.9 <sup>b</sup>	+ 1.1	+ 8.4
Cash farm income <sup>3</sup>	n.a.		
	Indexes (1947-49 = 100)		
Industrial production <sup>2</sup>			
Combined index	128 <sup>a</sup>	+ 1.7	+ 9.8
Durable manufactures	144 <sup>a</sup>	0.0	+16.5
Nondurable manufactures	115 <sup>a</sup>	+ 3.1	+ 3.1
Minerals	116 <sup>a</sup>	+ 3.0	+ 9.0
Manufacturing employment <sup>4</sup>			
Production workers	111 <sup>a</sup>	- 1.2	+ 5.9
Factory worker earnings <sup>4</sup>			
Average hours worked	102	+ 0.2	0.0
Average hourly earnings	133	0.0	+ 6.6
Average weekly earnings	135	+ 0.3	+ 6.6
Construction contracts awarded <sup>6</sup>	185	-21.1	- 1.7
Department store sales <sup>2</sup>	112 <sup>a</sup>	0.0	0.0
Consumers' price index <sup>4</sup>	115	+ 0.3	+ 0.6
Wholesale prices <sup>4</sup>			
All commodities	111	- 0.3	- 1.4
Farm products	96	- 1.6	-12.4
Foods	105	- 0.7	- 5.2
Other	115	0.0	+ 1.6
Farm prices <sup>3</sup>			
Received by farmers	96	- 0.4	-12.5
Paid by farmers	112	0.0	- 3.1
Parity ratio	93 <sup>d</sup>	0.0	- 9.7

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for July, 1953; comparisons relate to June, 1953, and July, 1952. <sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1953					1952
	Sept. 19	Sept. 12	Sept. 5	Aug. 29	Aug. 22	Sept. 20
Production:						
Bituminous coal (daily avg.)	1,611	1,623	1,604	1,624	1,595	1,975
Electric power by utilities	8,395	7,963	8,694	8,540	8,432	7,654
Motor vehicles (Wards)	138.6	116.8	125.9	144.9	155.7	138.4
Petroleum (daily avg.)	6,405	6,417	6,445	6,532	6,529	6,386
Steel	128.3	125.2	127.0	131.1	134.6	132.0
Freight carloadings	824	711	799	818	817	881
Department store sales	120	102	101	100	100	114
Commodity prices, wholesale:						
All commodities	110.8	110.4	110.3	110.7	110.8	111.8
Other than farm products and foods	114.6	114.7	114.7	114.7	114.8	113.2
22 commodities	89.7	90.3	89.7	89.9	89.0	95.1
Finance:						
Business loans	23,295	22,957	22,965	22,891	22,940	21,692
Failures, industrial and commercial	182	131	178	182	122	145

Source: Survey of Current Business, Weekly Supplements.



# RECENT ECONOMIC CHANGES

## Sharp Advance in Foreign Investment

Reflecting in large part the desire by United States business to develop foreign sources of raw materials is the sharp increase in American investment in foreign countries that has occurred in the past few years. Direct investment abroad (mainly business investment in foreign subsidiaries and branches) advanced by more than \$3 billion between 1950 and the middle of 1953 to \$15 billion, according to data recently released by the Department of Commerce. Most of the increase went to countries in the Western Hemisphere, with about half of it concentrated in Canadian enterprises and another \$1 billion invested in Latin America. Direct investment in Canada at the end of 1952 totaled about \$5 billion, a third of all our foreign investment.

No current data are available to indicate the portion of United States investment flowing into different foreign industries. However, in 1950, the most recent previous year studied, manufacturing accounted for 32 percent of this country's total foreign investment, followed in importance by the petroleum industry, which accounted for 29 percent of the total.

The importance of direct investment is apparent from the fact that in 1950 approximately 20 percent of United States purchases abroad were from foreign branches and subsidiaries of American companies.

## Gasoline Stocks Off Less Than Usual

This year, since June boosts in gasoline prices, motorists have been paying higher prices per gallon than they had in over three decades. Although the increase

amounted to less than 2 cents a gallon, it represented the sharpest advance in gasoline prices that has occurred in more than three years. (See chart.)

Also brought out by the chart is the fact that stocks of gasoline dropped much less than usual during the summer months. In previous years, stocks declined by 20 percent or more between the seasonal peak reached in the spring and the end of August. This year the decline amounted to only 12 percent. The less-than-seasonal drop in stocks is largely attributable to record production of gasoline which was not accompanied by correspondingly higher consumption.

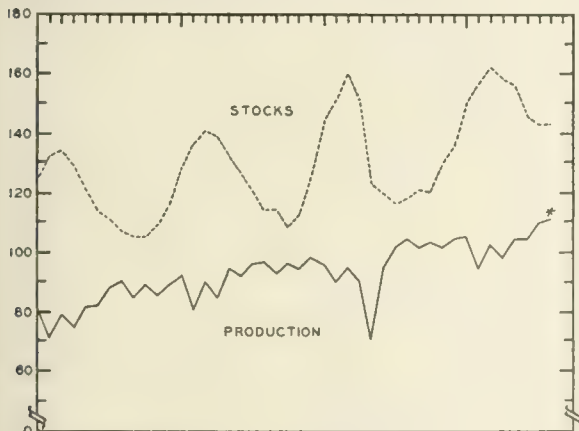
## Students Leave Labor Force

Students left summer jobs and returned to classrooms en masse early in September, and as a result employment declined by about 1 million persons during the month to 62.3 million. Despite the drop, employment was at a record for the month, slightly above the September, 1952, level. There was almost no change in unemployment from August to September since the decline in the number of employed students produced a corresponding decline in the size of the labor force rather than a rise in unemployment. Census data, in thousands of workers, are as follows:

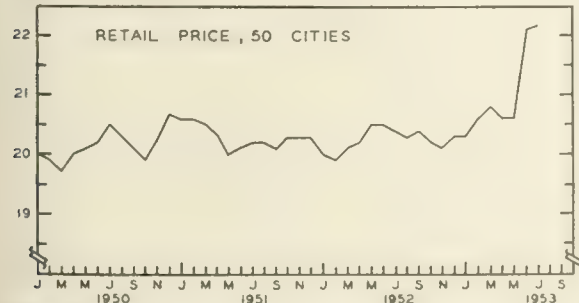
	September 1953	August 1953	September 1952
Civilian labor force.....	63,552	64,648	63,698
Employment.....	62,306	63,408	62,260
Agricultural.....	7,262	7,274	7,548
Nonagricultural.....	55,044	56,134	54,712
Unemployment.....	1,246	1,240	1,438

## GASOLINE PRODUCTION, STOCKS, AND PRICES

MILLIONS OF BARRELS



CENTS PER GALLON



\* Estimated.

Sources: American Petroleum Institute and Bureau of Mines.

## Public and Private Debt Up in 1952

Outstanding debt of the American people rose \$31.5 billion during 1952, about the same increase as occurred in 1951. This lifted total public and private debt to \$533 billion, an amount equal to \$3,450 per person. As in other postwar years, the bulk of the increase centered in private indebtedness. However, in 1952 Federal, state, and local borrowing accounted for a quarter of the overall debt increase, as opposed to less than 8 percent in 1951. A \$5.5 billion increase in Federal government obligations accounted for this advance, since there was no change in the rate of state and local borrowing in 1952.

Private borrowing rose 8 percent in 1952 to account for 55 percent of the total debt. In 1951 it represented 53 percent, and in 1945, the wartime low, it amounted to only 35 percent of the total. About half the private debt expansion in 1952 consisted of a \$7.5 billion increase in consumer credit. Increased corporate debt accounted for most of the remaining advance in private obligations, though advancing less than in either 1950 or 1951.

## Factory Workweek Unchanged

Factory workers averaged 40.5 hours of work a week in August, fractionally above the July workweek. The increase was less than expected for this time of year, as the average workweek usually advances more sharply between July and August when workers return from vacations and factories expand output in preparation for the fall buying season. Nevertheless, average weekly hours in manufacturing plants in August equaled their level of a year ago, and were only about a half hour below the postwar high for the month reached in 1950.

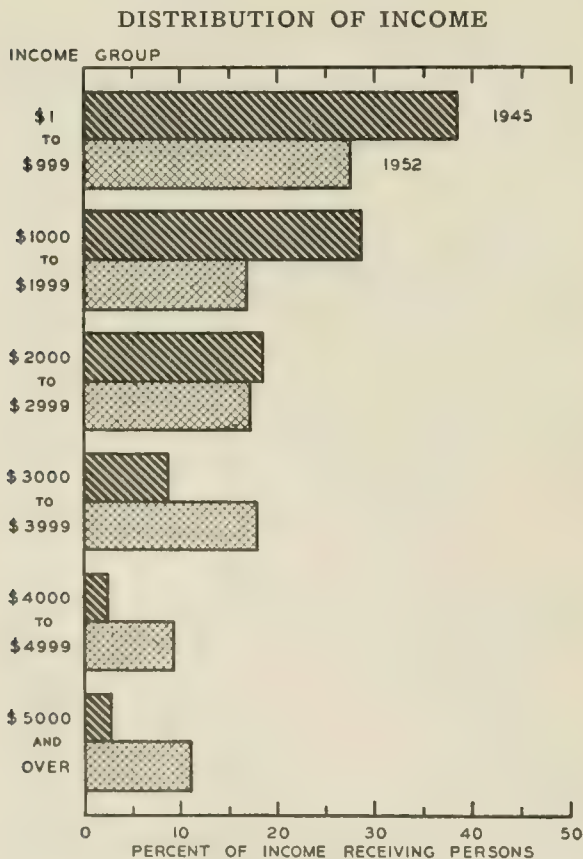
Average hourly earnings in manufacturing, including

overtime and other premium pay, were unchanged from July at a postwar high of \$1.77. This was 11 cents an hour higher than in August, 1952. Most of the increase over 1952 occurred in the latter part of last year and the opening months of 1953. Hourly earnings have changed only slightly since April. Largely because of the increase in wage rates, average weekly earnings in August reached \$71.69, up \$4.50 from a year ago.

### Postwar Shift in Distribution of Income

Consumers' incomes have kept pace with the sharp postwar increase in production and employment. In 1945 the median income of American earners was \$1,360. Last year it amounted to \$2,315, an increase of 70 percent over the seven-year period, according to Bureau of the Census estimates.

Accompanying the postwar rise in median income has been a marked shift in the percentage distribution of persons among income classes. In 1945, nearly 40 percent of all Americans who had any income at all received less than \$1,000 and only 3 percent earned \$5,000 or more. Since 1945 an increasing proportion of income receivers has advanced into higher income groups. This was due partly to higher price levels and partly to the expansion of employment opportunities. As a result, the percentage of persons earning less than \$1,000 had shrunk to less than 30 by 1952, whereas the percentage in the highest income group had nearly quadrupled. As shown by the accompanying chart, this movement toward higher income levels occurred all along the income scale, with a substantially smaller percentage of persons in the income groups below \$3,000 in 1952 than in 1945, and a much higher proportion in the groups above \$3,000.



Source: Bureau of the Census.

## Our Farm Price Supports

(Continued from page 2)

recognized this and supported the flexible price provisions of the Agricultural Act of 1949, which provide for progressive lowering of support prices when crops exceed recent norms. This attempt to call the price mechanism into action was essentially a step in the right direction. But this provision of the law has consistently been prevented from coming into operation. Last year Congress continued the 90 percent support through 1954. Recently, Senator Young (R., N.D.) has announced that he will push for another 3-year extension at the same rate early in the next session of Congress.

Perhaps Secretary Benson has merely postponed meeting the issue until a mounting scandal changes the balance of pressure. Otherwise, his action would imply acceptance of a false political thesis; for it is no more than a delusion of the professional lobbyists that so ill-conceived a program can endure. What happened to potatoes will happen to the rest of the program if adjustments are not made. The question now is merely whether it will be preserved unchanged until public indignation sweeps it away in its entirety.

### The Objectives of Farm Policy

All this is not to say that any kind of farm program must be ruled out. In this rapidly changing economic world, some intervention to prevent the worst contingencies may well be justified. It may be worth a look, therefore, at the valid objectives of such intervention.

The first—which is the original purpose for which the support program was devised—is to provide relief from distress under conditions of extreme depression. Providing relief does not mean keeping incomes at a peak. But the whole point is rather irrelevant at present, because we are in a period of unprecedented prosperity—for the farm community as well as the general economy.

The second valid objective is to secure a satisfactory adjustment of production to the needs of the consuming population. The problem here is complicated by the changes imposed by national emergencies. In such an emergency we expect all kinds of business to produce to their utmost and afterwards to drop back to more normal levels of demand. The business of farming must, like other businesses, take its opportunity and carry its share of the burden, without expectation that its income will continue at the peak indefinitely.

Although today's position is hardly an all-out emergency, our surplus problem to some extent arises as the result of World War II and its aftermath. In the transition, before production can again be adjusted to normal demands, it may be important to prevent too drastic changes from disrupting our productive mechanisms to the extent that we may find ourselves at the opposite extreme of inadequate supplies. But if this is the justification for present policy, its transitional character should be recognized and policy adjusted toward getting the government as quickly as possible out of the position of residual holder of supplies produced by reason of an opportunity for realizing a political windfall.

The only real assurance of farm prosperity lies in the maintenance of high living standards for a growing population. The sooner the farm community turns from the quest for special advantage in recognition of its dependence on general prosperity, the better will be its chances for a secure future.

VLB



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Metal Insulation Spray

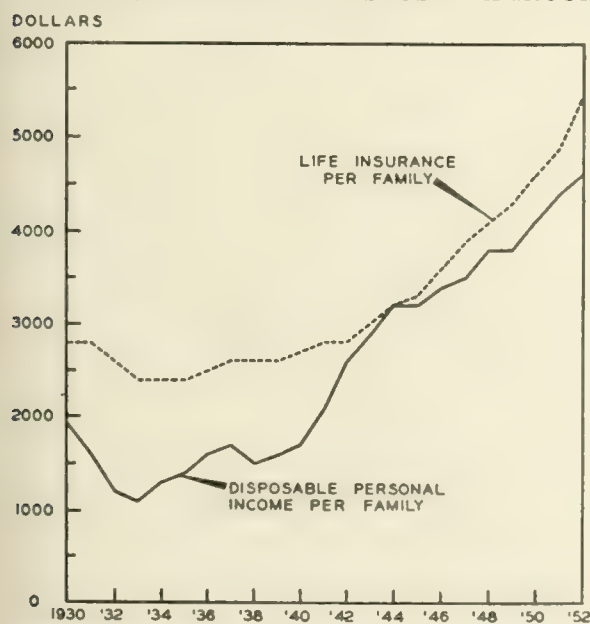
A spray that will insulate metals to temperatures up to 5,000 degrees Fahrenheit has been developed by the B. F. Goodrich Company, Akron, Ohio. A 1/16-inch coating of the new insulation protects metal up to 10 seconds against flame temperatures hotter than the melting point of metals, according to the company. The product, which was developed at the request of the Defense Department for use in the rocket and guided missile field, is described as a "water base inorganic material unique in the field of thermal insulation."

Called Pyrolock, the new material is nontoxic, non-flammable, and nonexplosive, and will adhere directly to clean metal surfaces without sandblasting or use of priming surface preparations. It is sprayed on like paint, and the dried layer of Pyrolock bonds itself to metal with a strength that withstands sharp impact short of actual deformation of the base metal. Resistant to most solvents and chemicals, the product also withstands indefinitely temperature cycles from 60 degrees below to 165 degrees above Fahrenheit.

### Life Insurance Related to Personal Income

The amount of life insurance in force per family has risen steadily during the past decade, but not as much as disposable personal income per family. According to the chart below, the value of life insurance in force per family in 1930 was almost 50 percent greater than disposable personal income per family, and in 1933 at the depth of the depression, it was 118 percent greater. But in 1952, when average family earnings were up to \$4,600 after taxes, the value of life insurance in force per family was \$5,400, only 17 percent higher than the family's disposable income. Only three out of ten families who owned life insurance in 1952 invested 5 percent or more of their

#### LIFE INSURANCE AND DISPOSABLE INCOME



Sources: Institute of Life Insurance, Spectator Year Book, and U. S. Department of Commerce.

disposable income in premiums, according to the annual Survey of Consumer Finances conducted by the University of Michigan for the Federal Reserve Board.

About 77 percent of all families owned some type of life insurance in 1952. Although ownership differed primarily with income status, the number of children in the home was also a determining factor. Families with no children reported 73 percent owning life insurance; those with one child, 84 percent; and those with two children, 86 percent. However, only 83 percent of families with three children were owners of life insurance and 70 percent of those with four or more children.

### Around-the-Clock Recorder

A recording machine that absorbs information continuously for 48 hours unattended is being offered to the commercial market by SoundScriber Corporation, New Haven, Connecticut. This is made possible by use of a wider tape. Whereas conventional one-hour recorders employ magnetic tape about a quarter of an inch wide, the new unit has one with a width of three inches. The tape moves at a rate of a little over 4½ inches a minute whereas the tape in one-hour machines moves almost that far in a second. A buzzer sounds if a power failure occurs, when the machine nears the end of the tape, or when the tape breaks. Also, by means of a printed time scale on the tape, it is possible to know the exact time messages are received.

The machine can also be equipped to record simultaneously two channels of communication having different frequencies. However, the unit works for only 24 continuous hours when used that way. The recorder, which is about the size of a large table-top radio, will cost \$1,250 for one-channel use and \$1,395 for the two-channel type. The company believes operating costs will be low.

The armed services have been using the machine for the past year for recording communications between plane pilots and operators of airfield towers. Commercial applications for the equipment include radio program monitoring, recording commercial airline and railway communications, copying police and fire department broadcasts, and press and business recording where exact reproduction is important.

### Rust Remover

A new type rust- and tarnish-removing compound provides a combination treatment which will remove rust and tarnish and retard future corrosion at the same time. The makers, Octagon Process, Incorporated, assert that the compound, called Rustclean, will not only clean metal surfaces of rust, scale, and oil and grease film, but will also prevent the re-formation of corrosive elements. In addition, it will prepare metal surfaces for painting and promote adhesion of paints and lacquers. According to the manufacturer, the new product is nonflammable, nontoxic, and safe to handle. It can be used on vertical and horizontal surfaces as well as on tools, automobiles, and other metal products.

Octagon Process, Incorporated, (15 Bank Street, Staten Island 1, New York) has published a booklet on rust and tarnish removal in which six different types of

(Continued on page 9)

# WESTERN EUROPE'S DOLLAR PROBLEM

GEORGE KLEINER, Associate Professor of Economics

The increase in foreign gold and dollar holdings in the past year and a half has focused attention once more upon the possibility of freeing international trade and payments of the restrictions that have been used so widely since the beginning of the war.

The importance of adequate reserves of gold and dollars has been stressed for some time both here and abroad. Most countries that have maintained exchange controls and other trade restrictions have been reluctant to do away with these controls and free their international transactions, for fear that their reserves would prove to be inadequate to tide them over the fluctuations so frequently encountered in international payments.

By the end of 1952, aggregate gold and dollar holdings of foreign countries had reached \$20.4 billion, which was about \$6 billion higher than the postwar low in September, 1948, and close to the postwar high at the end of 1945. Considering that in the principal countries the level of industrial production is well above prewar, that the job of reconstruction has been accomplished, and that in most countries what lies ahead is the long, relatively slow pull of increasing productivity rather than the sharp drain on resources of making good the losses due to war, it seems at first glance that such a level of reserves should be adequate. Closer analysis, however, will show that this view rather oversimplifies the problem.

## The "Dollar Gap" Persists

It will be evident from the accompanying table that in spite of the high level of United States imports of goods and services in the past few years, the rest of the world was still unable to balance its accounts with us. True, foreign countries were able to add to their gold and dollar holdings. But even if we exclude these increases from their deficit on current account, there is a "dollar gap" of some \$4 billion a year.

Relative to the increase in the value of world trade, moreover, foreign reserves are still low — well below prewar levels. They afford considerably less protection against our economic fluctuations than before, and these fluctuations seemingly threaten to be more violent than ever.

A further point of importance with regard to these recent results is that many countries still maintain tight restrictions on imports from the dollar area. Were it not

for such controls, the purchase of goods and services from the United States would most certainly have been higher and would therefore have cut into reserves, instead of permitting them to be increased. Until the principal foreign countries see themselves clearly achieving balance in their international transactions with us, it is doubtful that we can prevail upon them to dismantle their controls on such transactions.

## Western Europe's Need to Export

What, then, are the chief hindrances to achieving such a balance? The problems faced differ with different countries or areas. For the countries of Western Europe, the problem is essentially one of redistributing their resources, of shifting them from the production of the kinds of exports they have specialized in in the past largely manufactured consumer goods, to the production of the capital goods and other durables now so much in demand in the developing countries of Latin America and Asia.

Western Europe has actually achieved a remarkable increase in exports. To balance its accounts, however, the increase must be even greater than it has been thus far. The reasons for this are mainly two. The principal Western European countries lost a good deal of investment and service income during the war, when they were forced to liquidate foreign assets in order to pay for current imports. Great Britain even became a substantial debtor, and though the servicing of this debt does not involve a particularly large outlay annually, the very existence of the debt has had an unsettling effect on her international position. This loss of investment income (as well as repayments on outstanding debts) means that exports must be increased if the level of imports is to be maintained. The income of 1950-51 from Europe's external assets was equivalent to only 9 percent of the 1938 volume of exports valued at present prices, compared with 32 percent before the war; this was due partly to a fall in the money level of that income, partly to a decline in its real value because of the increase in world prices.

An even bigger burden has been imposed on Western Europe by the change in the prices of its imports relative to the prices of its exports. Europe imports chiefly raw materials and foodstuffs, which have increased in price considerably more than the manufactures she exports. To pay for the same volume of imports today as before the war, therefore, Europe would have to ship a much larger volume of exports, thus reducing the resources available for home consumption or investment. It has been estimated that this alone represents an additional burden on Western Europe equivalent to 44 percent of its 1938 volume of exports.

## Obstacles to Trade Balance

But even were Europe able to achieve the increase in production needed to permit such an expansion of exports, the problem would by no means be solved. Two other changes or shifts in world production and trade have increased the difficulty of Europe's achieving balance with the dollar area. One of these is the shifts that have taken place in the sources of supply of some of the principal raw materials and foodstuffs. Partly because of

UNITED STATES BALANCE OF PAYMENTS

	1951	1952
	<i>Billions of dollars</i>	
Supply of dollars through:		
Merchandise imports into U. S. . . . .	11.7	11.5
Payments for services to foreigners. . . . .	3.4	4.2
Private capital outflow from U. S. . . . .	1.0	0.9
Private remittances. . . . .	0.4	0.4
	<u>16.5</u>	<u>17.0</u>
Foreigners used dollars to secure:		
Merchandise exports from U. S. . . . .	15.5	15.9
Services from U. S. . . . .	4.7	4.8
Increase in foreign-owned dollar balances and other assets, including gold, net. . .	0.4	1.2
Unaccounted for. . . . .	0.5	0.2
	<u>21.1</u>	<u>22.1</u>
Foreign deficit. . . . .	4.6	5.1
Deficit was met almost entirely through U. S. government aid, military and economic. .	4.6	5.1

Source: U. S. Department of Commerce.



the desire to industrialize, partly because of increased home consumption, export availabilities in many non-dollar countries have either declined or failed to increase, with the result that Europe has had to depend upon exports from the United States and Canada, thus increasing her dollar requirements.

The other change that has militated against Europe's achieving dollar balance is the changed distribution of world dollar receipts since the war. Much of the increase in United States payments for imports has gone to countries of the Western Hemisphere. Whereas the volume of United States imports from other Western Hemisphere countries increased more than 150 percent, the volume of our imports from the rest of the world, excluding Western Europe, increased less than 50 percent. If we add private capital outflow to this supply of dollars, moreover, the distribution becomes even more changed, since the bulk of our investments since the war have been in Canada and in Central and South America, with an important share going into oil development.

In the face of these changes in sources of supply and dollar distribution, Western Europe is faced with one of two alternatives. The first is to increase exports to the non-dollar world in competition with the United States. If Europe were able to displace American exports in third countries, and if United States imports from these third countries were to remain at present levels, Europe would be in a position to earn dollars indirectly, and this multilateral source of dollars could then be used to cover her direct deficit with the United States.

The devaluations of 1949 were designed largely to achieve this objective. Before their full effects could be felt, the outbreak of the Korean war and the stock-piling program of the United States sent prices up in a new spiral. It is significant, however, that when the dollar earnings of the "third" countries expanded so sharply in the year commencing June, 1950, these countries were not disposed to spend their dollar accruals on European exports. Rather, they held on to their dollars, using them later to purchase capital goods and other durables in the United States.

Though Europe has achieved a remarkable increase in exports to the non-dollar world, further increases will require a redirection of her resources away from the production of consumer goods exports and towards the production of capital goods exports. In a world bent on industrialization, it is the latter type of product that is in demand. For Europe, however, the achievement at the same time of a very large increase in the physical volume of exports and a change in the composition of those exports must inevitably be a painful, costly process and one that will take a long time.

The second alternative is for Europe to increase exports directly to the United States. This is the basis for the recent emphasis on "trade not aid." Aside from the reduction in United States tariffs that such a development would necessitate, this alternative would likewise take a long time to work out. To compete with the most productive country in the world in its own markets, with its own tastes and ways of producing and marketing goods and services, and to do this on the scale needed to achieve dollar balance for Europe, would be no mean feat.

### Basic Adjustments Required

Either of these two alternatives, moreover, would require readjustments on the part of the United States. What it amounts to is that if Europe is to increase her

exports sufficiently to make her dollar position viable, this increase must be in what is now an American market, whether within the United States itself or in the rest of the non-dollar world. For the United States, European balance must mean that we shall have to absorb the additional European exports or absorb the output of those resources, now producing exports, that would be displaced as a result of European competition in third countries.

There are, of course, other alternatives, but they have been discarded as politically not feasible or as undesirable from a longer-run point of view. One that seems to be gaining ground in certain Western European quarters is the opening up of trade between Western and Eastern Europe, and the attempt to develop sources of supply in Eastern Europe for the materials and food-stuffs Western Europe must have.

Another is an increase in private United States investments in foreign countries or, failing that, the continuance of United States aid. Given the desire to industrialize on the part of the underdeveloped countries, and given the substantial investments that would become profitable once some of the needed public overhead capital were acquired in these countries, it seems that private investment would appear attractive. Thus far, however, there have been many obstacles in the way: exchange controls, transfer difficulties, problems of taxation, political nationalism and the fear of colonial status, general world tension, and inflationary conditions in the underdeveloped countries, to name a few.

Whatever alternative Europe will attempt to use to bring her dollar position into balance, it should be clear that the achievement of balance will take a long time, and that Europe will hardly be in a position to drop her direct restrictions on international transactions until she has achieved a greater degree of dollar security.

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## Business Briefs

(Continued from page 7)

Rustclean are described. Each type does a special job. The booklet furnishes detailed instructions for the use of the compound by wipe-on, immersion, and spray methods.

### Economical Factory Towel

A new disposable towel made of cotton and plastic is expected to cut factory towel costs, according to its developers, Toledo Industrial Wipers Company, Toledo, Ohio. Designed to clean, polish, and get rid of grease, oil, or water, the new towel will cost about 1¾ cents as compared with 8 cents for ordinary rag wipers. Called Wipex, the new cotton-plastic item is reported to absorb up to six times its own weight in liquids. The cloth is now being test sold by a subsidiary, Wipex Company.

### Tougher Sealing Tape

A new paper-backed tape for sealing cartons and boxes has been placed on the market by the Minnesota Mining and Manufacturing Company, St. Paul, Minnesota. Tradenamed "Scotch" brand sealing tape No. 260, the tape is described by the company as the strongest and most waterproof yet developed. According to the producer's tests, the new product can take 50 percent more rough handling when dry and 400 percent more hard treatment when wet than any other paper carton sealing tape. The item is of the pressure-sensitive type which means that it does not need to be wet when stuck in place.

# LOCAL ILLINOIS DEVELOPMENTS

Business activity in Illinois in August was down slightly from July, but registered marked advances over August, 1952, levels. Up 10 percent or more from last August were electric power production, coal production, bank debits, life insurance sales, business loans, and steel production. Even construction contracts awarded in August, off 34 percent from July, gained 2 percent over the same month of 1952.

Consumer prices in Chicago, continuing upward for the fifth consecutive month, reached another new peak at 116.3 percent of the 1947-49 level.

## Labor Legislation in 1953

Perhaps the most important labor legislation passed by the 68th Illinois General Assembly were bills amending the *Workmen's Compensation and Occupational Diseases Acts*. Maximum death payment was increased from \$6,800 to \$8,000 in cases of no children and from \$9,600 to \$10,750 where there are four or more children under 18. Maximum weekly benefits were raised from \$25.50 to \$29.00 where no children are involved, and from \$34.00 to \$38.00 in cases of four or more children. These and other substantial benefit increases, which amounted to approximately 16 percent, represent the largest gains ever made in Illinois at one time.

Other labor bills passed by the Legislature and summarized in the July-August, 1953, issue of the *Illinois Labor Bulletin* include the following: Industrial home

work is prohibited on the processing of metal springs and of any other article determined to be harmful to the health or welfare of industrial home workers or to the public, or which makes the maintenance or enforcement of labor standards unduly difficult.

Laws governing the six-day week and eight-hour day for women were amended to authorize the Director of Labor to grant emergency permits for longer working hours under certain circumstances.

A provision was added to the Illinois *Child Labor Law* stating that no minor can be excused from attending school except under circumstances deemed necessary and lawful by the county superintendent of schools or the superintendent of the public school which the child should be attending.

The amount of weekly wages exempt from garnishment (wages taken in default of money owed) when the employee is the head of a family was raised from \$25 to \$30, and the fine for violation of the *Garnishment Act* was raised from \$100 to \$500.

## Tax Revenues High

Tax collections in Illinois during the first eight months of 1953 ran 15 percent, or \$36.8 million, ahead of 1952. Collections during the summer months have been unusually high because of record living costs and peak employment—factors promoting rapid circulation of cash. Nearly \$38 million—an unprecedented midsummer rate—was collected by the State Treasury in July, and August receipts totaled almost \$36 million.

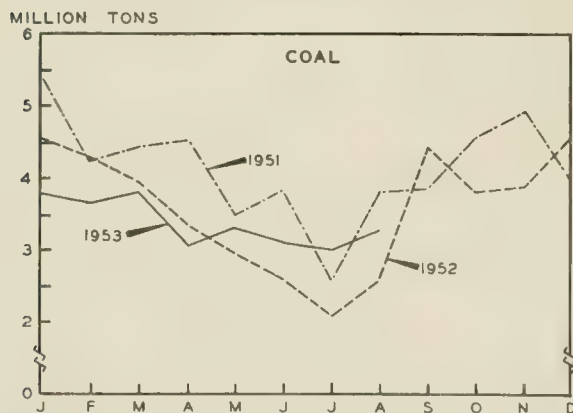
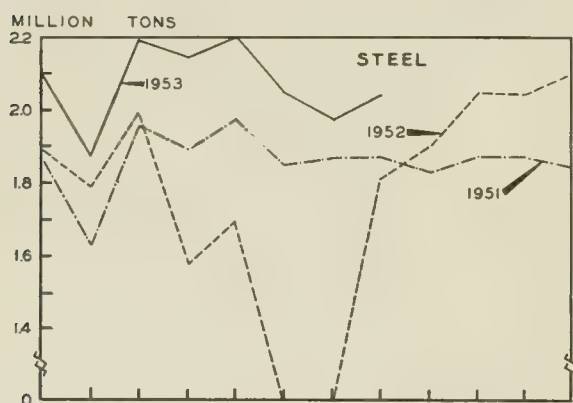
An increase of 17 percent between August of last year and August, 1953, resulted from gains in five major categories. The gasoline tax, which was boosted to a nickel a gallon this year as against four cents a gallon in 1952, was responsible for more than half of the overall gain, up \$3.0 million to \$11.9 million. Retailers' occupation taxes accounted for another 29 percent of the increase, up \$1.5 million to \$16.7 million. Other sources of general revenue that registered increases over August, 1952, were liquor tax collections, up \$386,530 to \$2.1 million; utility tax receipts, up \$271,965 to \$2.1 million; and cigarette tax revenue, up \$195,420 to \$2.7 million.

## Differences in Coal and Steel Output

Coal production in Illinois and steel production in the Chicago District have exhibited diverse trends during recent years (see chart). In the first half of 1953, for example, steel production attained a record high, and subsequent output remained well above 1951 and 1952 levels. But coal production fell below both the 1951 and 1952 levels at the outset of the year and only since May has it surpassed last year's output. The improvement has been due to a greater-than-expected demand by the electric utilities and to a sustaining demand by steel mills. However, the 1953 level of production is still well below the average 1951 output of Illinois mines.

During the first eight months of 1953, Chicago District steel mills turned out 16.6 million tons as compared with 11.4 million tons for the same period in 1952. August production totaled 2.0 million tons, up 3 percent from July and 12 percent from August, 1952. August coal output, up 10 percent from July, reached 3.4 million tons. That was 30 percent more than August, 1952, production.

## ILLINOIS COAL AND STEEL PRODUCTION



Sources: American Iron and Steel Institute and Illinois Department of Mines and Minerals.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

August, 1953

	Building Permits <sup>1</sup> (000)	Electric Power Consumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Department Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b> .....	<b>\$30,499<sup>a</sup></b>	<b>926,872<sup>a</sup></b>	<b>\$518,326<sup>a</sup></b>		<b>\$11,823<sup>a</sup></b>	<b>\$10,801<sup>a</sup></b>
Percentage Change from.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ +12 -3	{ -7.3 +17.7	{ -2.1 -7.7
<b>NORTHERN ILLINOIS</b>						
<b>Chicago</b> .....	<b>\$24,182</b>	<b>711,709</b>	<b>\$375,591</b>		<b>\$10,791</b>	<b>\$9,390</b>
Percentage Change from.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ +11 -4	{ -7.3 +18.3	{ -2.3 -8.6
<b>Aurora</b> .....	n.a.	n.a.	<b>\$ 7,352</b>		<b>\$ 46</b>	<b>\$ 102</b>
Percentage Change from.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ +24 -2	{ -1.3 +15.1	{ +25.4 +18.6
<b>Elgin</b> .....	<b>\$ 549</b>	n.a.	<b>\$ 5,425</b>		<b>\$ 28</b>	<b>\$ 87</b>
Percentage Change from.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ n.a. n.a.	{ +1.5 +5.7	{ +26.9 +0.7
<b>Joliet</b> .....	<b>\$ 416</b>	n.a.	<b>\$12,421</b>		<b>\$ 58</b>	<b>\$ 75</b>
Percentage Change from.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ +13 +2	{ -7.4 +17.7	{ +20.1 +17.7
<b>Kankakee</b> .....	<b>\$ 244</b>	n.a.	<b>\$ 5,429</b>		n.a.	<b>\$ 27</b>
Percentage Change from.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ n.a. n.a.	{ n.a. n.a.	{ -5.2 -1.7
<b>Rock Island-Moline</b> .....	<b>\$ 771</b>	<b>18,558</b>	<b>\$ 9,699</b>		<b>\$ 78<sup>b</sup></b>	<b>\$ 141</b>
Percentage Change from.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ n.a. n.a.	{ -6.5 +9.0	{ +16.0 -6.7
<b>Rockford</b> .....	<b>\$ 900</b>	<b>31,720</b>	<b>\$15,787</b>		<b>\$ 127</b>	<b>\$ 143</b>
Percentage Change from.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ +16 -5	{ -4.5 +4.1	{ -5.0 +0.2
<b>CENTRAL ILLINOIS</b>						
<b>Bloomington</b> .....	<b>\$ 124</b>	<b>6,656</b>	<b>\$ 6,447</b>		<b>\$ 52</b>	<b>\$ 78</b>
Percentage Change from.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ n.a. n.a.	{ -12.0 +3.8	{ +15.7 -25.2
<b>Champaign-Urbana</b> .....	<b>\$ 219</b>	<b>7,796</b>	<b>\$ 6,497</b>		<b>\$ 48</b>	<b>\$ 70</b>
Percentage Change from.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ n.a. n.a.	{ -10.7 +8.3	{ -5.9 +11.1
<b>Danville</b> .....	n.a.	<b>8,822</b>	<b>\$ 5,849</b>		<b>\$ 41</b>	<b>\$ 48</b>
Percentage Change from.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ +30 +4	{ -6.7 +2.7	{ -11.1 +8.1
<b>Decatur</b> .....	<b>\$1,413</b>	<b>21,972</b>	<b>\$ 9,811</b>		<b>\$ 77</b>	<b>\$ 89</b>
Percentage Change from.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ +17 <sup>c</sup> +2	{ -16.4 +11.6	{ -8.7 +4.3
<b>Galesburg</b> .....	<b>\$ 198</b>	<b>6,389</b>	<b>\$ 4,159</b>		n.a.	<b>\$ 27</b>
Percentage Change from.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ n.a. n.a.	{ n.a. n.a.	{ -23.4 +1.7
<b>Peoria</b> .....	<b>\$ 463</b>	<b>48,991<sup>c</sup></b>	<b>\$16,520</b>		<b>\$ 199</b>	<b>\$ 183</b>
Percentage Change from.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ +24 <sup>c</sup> +6	{ -3.2 +27.5	{ -5.3 +2.4
<b>Quincy</b> .....	<b>\$ 270</b>	<b>7,767</b>	<b>\$ 4,625</b>		<b>\$ 34</b>	<b>\$ 65</b>
Percentage Change from.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ +28 +2	{ -1.6 +5.2	{ -0.5 -9.6
<b>Springfield</b> .....	<b>\$ 300</b>	<b>27,354<sup>c</sup></b>	<b>\$13,618</b>		<b>\$ 92</b>	<b>\$ 161</b>
Percentage Change from.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ n.a. n.a.	{ -7.0 +16.9	{ -17.3 -10.3
<b>SOUTHERN ILLINOIS</b>						
<b>East St. Louis</b> .....	<b>\$ 375</b>	<b>10,869</b>	<b>\$ 9,677</b>		<b>\$ 116</b>	<b>\$ 56</b>
Percentage Change from.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ n.a. n.a.	{ -8.7 +0.0	{ -6.8 -2.0
<b>Alton</b> .....	n.a.	<b>12,030</b>	<b>\$ 5,002</b>		<b>\$ 35</b>	<b>\$ 24</b>
Percentage Change from.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ n.a. n.a.	{ -3.9 +15.5	{ -12.5 -6.5
<b>Belleville</b> .....	<b>\$ 75</b>	<b>6,239</b>	<b>\$ 4,418</b>		n.a.	<b>\$ 35</b>
Percentage Change from.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ July, 1953..... Aug., 1952.....	{ n.a. n.a.	{ n.a. n.a.	{ -0.2 +11.7

<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.

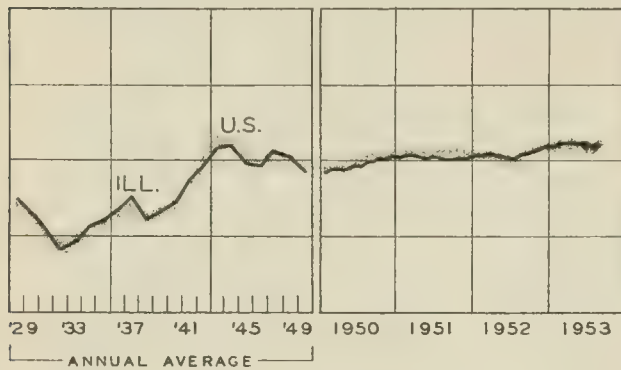
Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for July, 1953, the most recent available. Comparisons relate to June, 1953, and July, 1952.

<sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

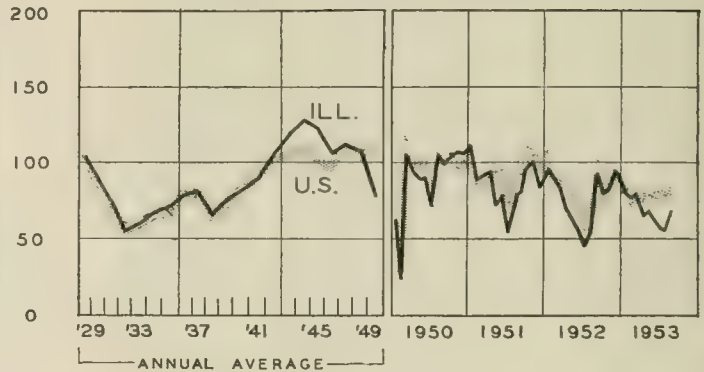
# INDEXES OF BUSINESS ACTIVITY

1947-1949=100

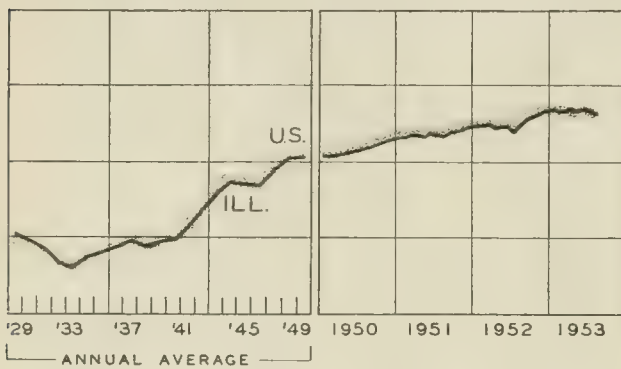
EMPLOYMENT - MANUFACTURING



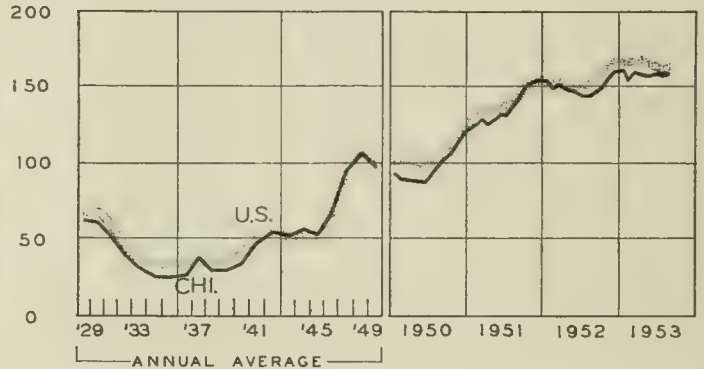
COAL PRODUCTION



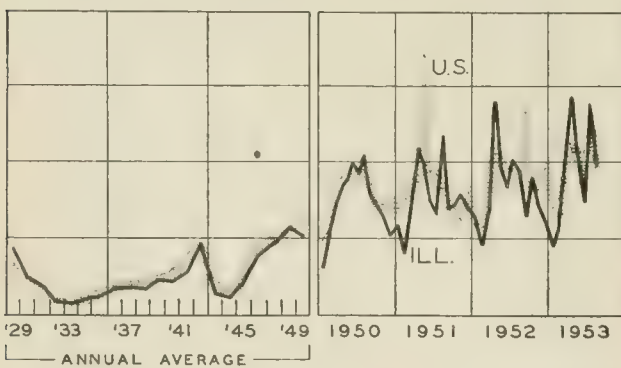
AVG. WKLY. EARNINGS - MANUFACTURING



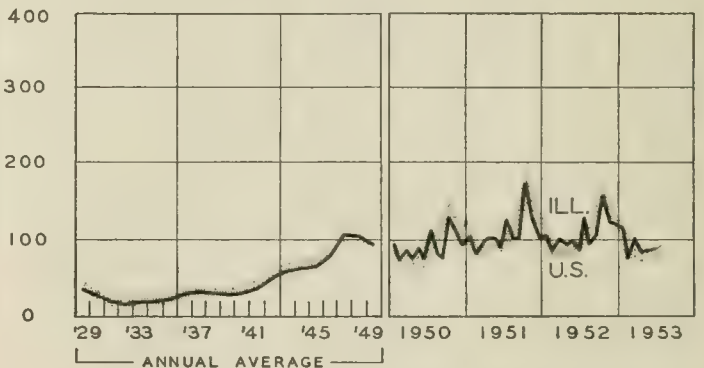
BUSINESS LOANS



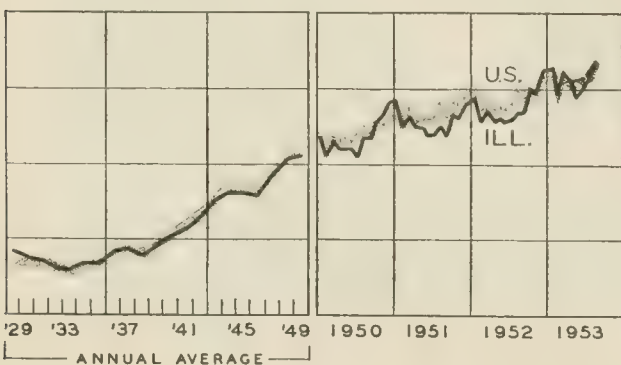
CONSTRUCTION CONTRACTS AWARDED



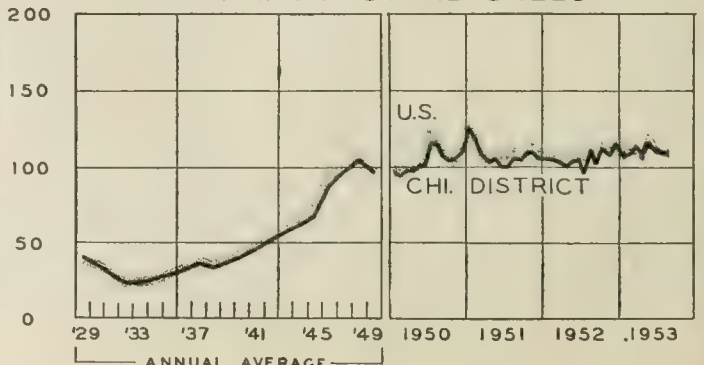
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

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NOVEMBER, 1953

NUMBER 11

## HIGHLIGHTS OF BUSINESS IN OCTOBER

Some easing in economic activity was evident in October as the Federal Reserve Board index of industrial production remained at the September level of 232 percent of its 1935-39 average. Thus, the index, though slightly above the 230 figure for last October, failed to register its usual autumn rise.

Also indicative of a somewhat lower rate of operations was the fact that the proportion of total wage earners in manufacturing working more than 40 hours a week declined to 22 percent this October as compared with 29 percent in October, 1952. However, unemployment in October remained at the postwar low of 1.2 million and total employment was practically unchanged from the preceding month and slightly above last October.

### Wholesale Prices Steady

The Bureau of Labor Statistics comprehensive index of wholesale prices has been remarkably stable for over a year, fluctuating almost entirely between 110 and 111 percent of its 1947-49 average. October marked a further continuation of this stability, as the index declined only fractionally from its September value of 111.0. This stability is all the more surprising in view of the pronounced fluctuations that have characterized some of the components of the index. As compared with October of last year, wholesale prices of farm products declined on the average by 10.1 percent and processed meats by 17.7 percent. These declines were offset by a rise averaging 1.4 percent in the prices of commodities other than farm products and foods, which have much greater weight in the index.

Prices received by farmers declined an additional 2 percent in October as prices of hogs, cattle, and corn weakened. Prices paid by farmers declined also but not as much as prices received, with the result that the parity ratio was down another point in the month ended October 15. At 91, the parity ratio was 8 points below the level of October, 1952.

### Construction Maintains Record Pace

Expenditures for new construction in October were unchanged from the September level and, at \$3.2 billion, set a new high for the month. Outlays this October were nearly 7 percent above the previous high for the month established in October, 1952.

The main factors sustaining construction activity in October were contraseasonal increases in outlays for

commercial, educational, and religious building. Highway construction was also at a high level, though down slightly from September.

For the first ten months of this year, new construction expenditures maintained a 7 percent margin over the record level attained during the corresponding period of last year. Although much of this increase was due to higher prices, the physical volume of new building is estimated to have risen by 3 percent.

### Business Inventories Rise

The value of inventories on the shelves of retailers, wholesalers, and manufacturers increased by \$600 million during September, after adjustment for seasonal factors. At a record \$78.7 billion, inventory holdings at the end of September were \$5.7 billion higher than a year earlier. Manufacturers' stocks increased the most during the month, by \$250 million, with wholesalers' stocks up \$200 million and retailers' stocks up \$150 million.

The reason for the inventory rise seems to have been an unexpected drop in sales in a few industries which more than offset a reduced rate of additions to inventories. The increase in retailers' inventories was entirely concentrated among auto dealers, as lagging sales combined with high production led to a contraseasonal increase of \$250 million in their holdings. Other durable goods inventories at retail registered little change, and nondurable goods stocks even fell slightly.

### Farm Income in 1953

Farmers in 1953 are expected to net about 7 percent less than last year. At an estimated \$12.5 billion, net farm income would be \$1 billion below the 1952 level.

The basic reason for the decline is a 4 percent drop in cash farm receipts accompanied by a drop of only 2 percent in production expenses. The drop in cash receipts occurred despite an increase in farm marketings, this increase being more than offset by lower prices. The largest declines occurred in potatoes, soybeans, and cattle, cash receipts for potatoes dropping by one-third. On the other hand, receipts from eggs and chickens were up substantially.

The outlook for 1954 is for the farmer to net about the same as this year. Gross receipts may be lower as a result of acreage restrictions on various crops but costs of farm operation are also expected to decline.

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# ILLINOIS BUSINESS REVIEW

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## Question That Survey

There are many occasions when the only way to obtain needed information is to go to those who have it and ask questions. That is the essence of what surveys are designed to do.

It is generally not necessary to go to all who have knowledge of a subject to get the answers. A relatively limited number can be interviewed, or consulted by mail questionnaire, and if this group is properly selected, the answers obtained are likely to be satisfactory for most practical purposes. Currently, there are a number of polling or survey organizations—mostly firms in the field of marketing research—that will undertake to answer any question through a nation-wide sample for what is really a very moderate fee.

All this is fairly well understood today. What is commonly overlooked is that it may be too well understood, in the sense that surveys may be misapplied or that there may be uncritical acceptance of the findings they produce.

### Making a World of Average Men

To place the surveys in proper perspective, it is necessary to keep in mind that they are designed to obtain information, not to create it. The interviewer can collect information that exists. When he merely gets a group of respondents to dream up answers beyond the scope of their actual knowledge, the result is likely to be worthless. Many forecasting surveys, for example, are of this kind. Since no one knows the future of the general economy, or of the stock market, surveys on such questions can contribute little. When confined to plans, programs, contracts, and similar measures of future activity they are more likely to add to our knowledge of what is likely to happen.

As we move into the measurement of attitudes, preferences, and other psychological states, there are also difficulties. In this shadowland, it is sometimes impossible to tell where fact is left behind and fancy takes over. No one can give an informed opinion about innovations or other matters beyond his experience. Yet, the uninformed individual will make unguarded statements when confronted by the interviewer with a question he feels he must answer. To assign meaning to such an answer may be capricious. To accept it as representing a standard for the community may be worse than capricious, it may be downright irresponsible.

In the ordinary commercial application, such pro-

cedures are apt to be relatively harmless. Their use may be justified on the basis that they will produce a greater profit. This may be doubted; but if the survey is invalid, results will reveal the error and the loss is only temporary.

The consumer may find this standardization through surveys to have some undesirable consequences because his choice may be unduly restricted. The flavor of the ice cream he eats may be determined not by the best choice of ingredients and processes, but by what a survey has indicated a majority prefers. The fads and frills on the product the consumer buys, as well as its functional necessities, are made to conform to a common standard. The kind, and perhaps the size, of the package things come in may be similarly determined. The automobiles he finds on the market may be made to look very much alike because no manufacturer wants to get too far away from what is assumed to be the pattern of the mass market.

Even in lines where goods are produced in full variety, the consumer may not have access to them. The storekeepers in any locality may find it easier to solve their buying and inventory problems by handling only one line of merchandise, which some national advertiser has "determined" to be the "buy" of the year.

When business goes too far in treating us as a race of average men, however, it opens up an area into which competition can profitably move. In this way, changes may be forced on the others. Even when the mass market is gauged correctly, there is a fringe of nonconforming buyers; and it may be that some of the most profitable opportunities for the small business of the future will lie in meeting the specialized demands of these limited groups.

### No Substitute for Creative Effort

The techniques of the pollster are also misapplied at times by being carried over into other fields, such as art and education, where mass standards have little, if any, applicability. In the movies, we are often given, not the title, the ending, or even important passages as they are written, but some modification intended to make them more palatable to somebody referred to as the "general public." The effect is a destruction of creative effort.

In the schools, our children are sometimes taught, not the essential tools of intellectual achievement, but bits of information and ways of tackling problems that some survey has revealed would be frequently encountered in the life of the average adult. This leads to substantial concentration on the latter kind of learning, which we are almost bound to pick up on our own when the time comes; but once the former is missed in childhood, it can seldom be recovered.

In all such cases, what ensues is miseducation of our people. Individuals will, of course, break the bonds and achieve distinction. But the gap between such individuals and the masses is widened, and progress is retarded. The control in these fields must come from the good judgment of the artist and the scholar; and when administrators put aside the advanced standards supported by such judgment, in favor of a poll of the man in the street, they are in effect abrogating their responsibility.

There is reason enough not to put too much faith in the answers provided by the surveys. Even the best survey samples cannot assure accuracy; they merely offer a probability of it. And even a wholly representative sample cannot provide an answer good for more than the

(Continued on page 6)



## **ILLINOIS—LEADER IN HOUSEHOLD FURNITURE**

The large and prosperous household furniture industry in Illinois began its long and irregular growth in 1833 when the Clark Filer Company was established in Chicago. Rapid population growth in the Midwestern states created an ever-growing demand for furniture, while cheap water transportation and later the availability of railroad trunklines and ready access to lumber supplies made cities such as Chicago and Rockford ideal sites for furniture plants.

The industry, which has now grown to 335 firms, is still concentrated in the Chicago and Rockford areas, with almost 80 percent of the State's firms located within a 50-mile radius of Chicago and another 15 percent in or around Rockford. The remaining firms are widely scattered throughout the State. Over 85 percent of these firms employ fewer than 100 workers and very few employ more than a few hundred. The largest employer is the Kroehler Manufacturing Company, which has plants at Naperville and Bradley and employs over 4,000 workers. Other large firms are the Kuehne Manufacturing Company of Mattoon and the Englander Company of Chicago and DeKalb, each company with more than 1,500 employees.

### **Growing Industry**

The furniture industry, although hard hit during the depression of the 1930's, has, like most other industries, reached new peaks during the postwar years. The 1952 production of wood and upholstered furniture was almost three times as great as that of 1941. The first half of 1953 has given every indication that production and sales may reach still higher levels this year. This, of course, depends largely on factors outside the control of the industry, such as national income and the number of new houses built. Changes in these figures are usually followed very closely by changes in furniture sales.

Illinois ranks third among the states in the value of household furniture produced, trailing only New York and North Carolina. In 1952, more than \$228 million worth of furniture was shipped by Illinois manufacturers. The largest part of this was unupholstered wood and metal furniture valued at about \$127 million. Another \$60 million worth of upholstered furniture as well as bedding and miscellaneous products valued at \$41 million were shipped during that period.

### **Chicago Biggest Furniture Market**

In addition to the large part played by Illinois in the manufacture of household furniture, the largest furniture market in the world is found at Chicago, in the American Furniture Mart and the Merchandise Mart. The owners of the American Furniture Mart believe that it is the largest building in the world devoted exclusively to one industry. The two million square feet of floor space of the Furniture Mart and half of the three million square feet of the Merchandise Mart are leased to manufacturers of home furnishings.

Because of the expense involved in shipping furniture, it is necessary for the buyer to come to the sample rather than sending the sample to the buyer as is customary in many industries. Consequently, in January and June of every year, buyers from retail stores from all over the country journey to Chicago to compare style, price, and quality of the products of hundreds of manufacturers and to place orders for the following six months. The January show generally draws more than 24,000 buyers and the June market from 16,000 to 20,000. About 40 percent of the total sales volume of the industry is booked during these periods.

### **Innovations in Production and Marketing**

New methods of furniture production and marketing promise to stimulate further industry growth. Among the most interesting of recent innovations is the use by the Kroehler Manufacturing Company of prefabrication in the production of upholstered furniture. In this process, springing and upholstering, formerly done after the wood framework was finished, are now performed on the separate parts before final assembly. The various parts such as backs, seats, and arms are built separately and then carried by conveyors to the final assembly point, or the parts are shipped to assembly points located near the market.

The use of machines instead of hand labor for such operations as sewing and stapling will cut the time and expense of furniture manufacture by considerable amounts. In addition, a saving on freight charges, an important element in furniture costs, is anticipated because up to 75 percent more furniture can be shipped in a freight car if the parts are unassembled. The unassembled parts do not have to be expensively crated and wrapped as do complete pieces. It is estimated that these cost reductions will result in price cuts of between 25 and 35 percent on the firm's top line of furniture and corresponding amounts on other lines.

Another interesting innovation is the prepackaging of chrome dinette sets by the Douglas Furniture Corporation of Chicago. A dinette set consisting of a table and four chairs, complete with instructions for easy assembly, is shipped in two surprisingly small corrugated boxes. The boxes are attractively designed to encourage purchase of the dinette sets as gifts. The prepackaged method of selling furniture saves a considerable proportion of handling and shipping charges, cuts storage costs, and reduces the probability of damage during delivery. In addition, customers are assured of receiving factory-fresh merchandise, not floor samples.

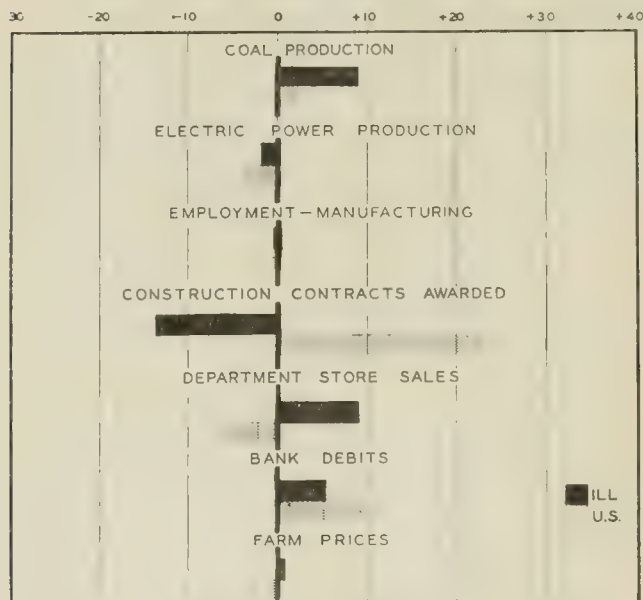
Such experiments with new methods make possible lower prices to the consumer and a larger total market. It is the same pattern that has accounted for the upward trend in living standards throughout our history, with the maximum of opportunity for American industry and its workers.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes August, 1953, to September, 1953



## ILLINOIS BUSINESS INDEXES

Item	Sept. 1953 (1947-49 = 100)	Percentage Change from	
		August 1953	Sept. 1952
Electric power <sup>1</sup> .....	165 1	- 1 8	+20 9
Coal production <sup>2</sup> .....	76 4	+ 8 9	-17 9
Employment—manufacturing <sup>3</sup> .....	111 9	- 0 1	+ 5 4
Payrolls—manufacturing.....	n.a.		
Dept. store sales in Chicago <sup>4</sup> .....	102 0 <sup>a</sup>	- 1 9	- 1 9
Consumer prices in Chicago <sup>5</sup> .....	116 6	+ 0 3	+ 1 4
Construction contracts awarded <sup>6</sup> .....	166 4	-13 8	+27 0
Bank debits <sup>7</sup> .....	144 0	+ 6 4	+ 9 4
Farm prices <sup>8</sup> .....	105 1	+ 0 7	- 7 8
Life insurance sales (ordinary) <sup>9</sup> .....	137 2	- 1 0	+13 1
Petroleum production <sup>10</sup> .....	91 1	- 1 5	- 1 2

<sup>1</sup> Federal Power Commission; <sup>2</sup> Illinois Department of Mines; <sup>3</sup> Illinois Department of Labor; <sup>4</sup> Federal Reserve Bank, 7th District; <sup>5</sup> U. S. Bureau of Labor Statistics; <sup>6</sup> F. W. Dodge Corporation; <sup>7</sup> Federal Reserve Board; <sup>8</sup> Illinois Crop Reports; <sup>9</sup> Life Insurance Agency Management Association; <sup>10</sup> Illinois Geological Survey.  
<sup>a</sup> Seasonally adjusted. n.a. Not available.

## UNITED STATES MONTHLY INDEXES

Item	September 1953	Percentage Change from	
		August 1953	Sept. 1952
Annual rate in billion \$			
Personal income <sup>1</sup> .....	285.8 <sup>a</sup>	- 0.4	+ 3.4
Manufacturing <sup>1</sup> .....			
Sales.....	298.8 <sup>a</sup>	- 2.0	+ 5.1
Inventories.....	46 4 <sup>a, b</sup>	+ 0.4	+ 7.4
New construction activity <sup>1</sup> .....			
Private residential.....	13.0	- 1.8	+ 4.0
Private nonresidential.....	13 2	0.0	+11.6
Total public.....	13.5	+ 0.6	- 0.5
Foreign trade <sup>1</sup> .....			
Merchandise exports.....	14.2 <sup>c</sup>	-12.4	+ 8.8
Merchandise imports.....	10.1 <sup>c</sup>	- 7.4	+ 2.8
Excess of exports.....	4 1 <sup>c</sup>	-22.7	+27.0
Consumer credit outstanding <sup>2</sup> .....			
Total credit.....	27.6 <sup>b</sup>	+ 0.6	+ 1.4
Installment credit.....	21.2 <sup>b</sup>	+ 0.6	+ 1.5
Business loans <sup>2</sup> .....	23.0 <sup>b</sup>	+ 0.6	+ 5.8
Cash farm income <sup>3</sup> .....	39.6	+32.7	- 8.6
Indexes (1947-49 = 100)			
Industrial production <sup>2</sup> .....			
Combined index.....	125 <sup>a</sup>	-1.3	+ 1.8
Durable manufactures.....	140 <sup>a</sup>	-1.9	+ 4.5
Nondurable manufactures.....	113 <sup>a</sup>	-1.5	+ 0.5
Minerals.....	114 <sup>a</sup>	0.0	- 4.6
Manufacturing employment <sup>4</sup> .....			
Production workers.....	110 <sup>a</sup>	- 1.4	+ 2.6
Factory worker earnings <sup>4</sup> .....			
Average hours worked.....	99	- 2.2	- 3.9
Average hourly earnings.....	134	+ 0.6	+ 5.3
Average weekly earnings.....	133	- 1.7	+ 1.2
Construction contracts awarded <sup>5</sup> .....	228	+23.1	-14.6
Department store sales <sup>2</sup> .....	106 <sup>a</sup>	- 5.4	- 1.9
Consumers' price index <sup>4</sup> .....	115	+ 0.2	+ 1.0
Wholesale prices <sup>4</sup> .....			
All commodities.....	111	+ 0.4	- 0.7
Farm products.....	98	+ 1.6	- 8.2
Foods.....	107	+ 1.6	- 3.4
Other.....	115	- 0.1	+ 1.4
Farm prices <sup>3</sup> .....			
Received by farmers.....	95	- 0.8	-11.1
Paid by farmers.....	111	- 0.7	- 3.1
Parity ratio.....	92 <sup>d</sup>	0.0	- 8.9

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for August, 1953; comparisons relate to July, 1953, and August, 1952. <sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1953					1952
	Oct. 24	Oct. 17	Oct. 10	Oct. 3	Sept. 26	Oct. 25
<b>Production:</b>						
Bituminous coal (daily avg.).....thous. of short tons.....	1,546	1,586	1,546	1,538	1,610	1,397
Electric power by utilities.....mil. of kw-hr.....	8,306	8,265	8,307	8,414	8,354	7,681
Motor vehicles (Wards).....number in thous.....	142.7	145.7	140.4	134.4	132.3	135.9
Petroleum (daily avg.).....thous. bbl.....	6,130	6,221	6,223	6,353	6,397	6,450
Steel.....1947-49 = 100.....	133.3	135.2	133.6	133.7	133.5	138.2
Freight carloadings.....thous. of cars.....	804	823	804	813	820	838
Department store sales.....1947-49 = 100.....	113	118	120	112	114	124
<b>Commodity prices, wholesale:</b>						
All commodities.....1947-49 = 100.....	110.0	110.1	110.3	110.7	110.7	111.1
Other than farm products and foods.....1947-49 = 100.....	114.6	114.6	114.6	114.6	114.6	113.0
22 commodities.....1947-49 = 100.....	86.2	85.9	85.6	87.1	87.6	92.1
<b>Finance:</b>						
Business loans.....mil. of dol.....	23,112	23,201	23,146	23,113	23,035	22,333
Failures, industrial and commercial.....number.....	185	169	186	189	152	154

Source: Survey of Current Business, Weekly Supplements.



# RECENT ECONOMIC CHANGES

## Consumers' Net Worth

Most of the nation's 54 million consumer spending units owned more than they owed as of the early part of 1953. The net worth of nearly half of them amounted to \$5,000 or more, according to estimates made by the Federal Reserve Board from data collected in its 1953 Survey of Consumer Finances. About a tenth of all spending units were worth upwards of \$25,000, and as many more were in debt to an extent exceeding their assets. The median net worth of all spending units was \$4,100, substantially greater than in 1950. These estimates probably understate actual consumer net worth, since they include practically all consumer debt, but exclude such assets as insurance, household appliances, and jewelry.

Almost all consumer spending units had accumulated some saving by 1953 in the form of business or investment assets, liquid assets, or various capital goods such as automobiles and houses. Liquid assets (checking and savings accounts and United States government securities) were the most widely held assets, with 70 percent of the spending units reporting at least some saving in this form (see chart, page 7). Most investment in business by individuals was in enterprises they operated or controlled, rather than in corporations open to the public.

## Zinc Inventories at Six-Year Peak

Inventories of slab zinc soared to 140,000 tons in September, their highest level in over six years, and 20 percent above the August figure. The advance reflected a further decline in domestic demand, as foreign smelters continued to undersell domestic producers. Production dropped slightly during the month, but the decline was far

too small to offset the decline in shipments and retard the growth of stocks.

As shown by the accompanying chart, the expansion of zinc inventories started in June of 1952, during the steel strike. With steel supplies short, producers of galvanized steel—the biggest users of zinc—cut orders and shipments dropped sharply. Zinc production, however, was maintained near prestrike levels, with the result that inventories climbed from slightly over 23,000 tons in May to 115,000 tons by the end of July. Although producers cut prices drastically, zinc stocks remained high, fluctuating between 80,000 and 100,000 tons until May of this year, and then surged upward even farther when European-produced zinc became cheaper than domestic zinc.

Some relief may be in store for American zinc producers. Stocks of zinc users are reported to be down substantially in Europe, and foreign demand is rising. This has diverted some foreign-produced zinc away from the United States and lifted pressure from domestic dealings. As a result the price of foreign-produced zinc at New York in early November was somewhat above the domestic price.

## Business Investment Up in First Half

Demand for investment funds by corporations amounted to \$13 billion in the first half of 1953, up \$3 billion from the same period a year ago. Most of this advance reflected increased working capital requirements, although investment in plant and equipment was also up—by half a billion dollars—between the two periods. The increase in working capital totaled \$1.7 billion in the first six months of this year, in contrast to a decline of \$700 million in the first half of last year. The dominant factor in this movement was the faster rate of inventory build-up in 1953.

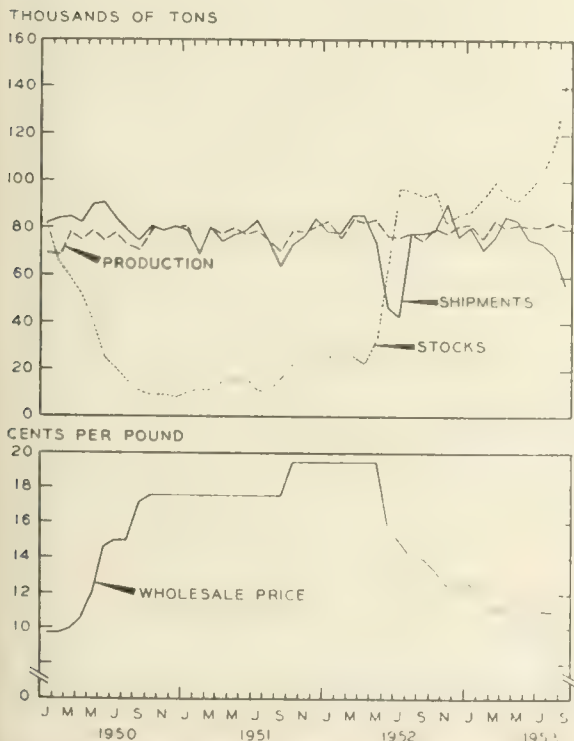
As in 1952, the bulk of this investment was financed from retained profits and depreciation reserves. Increased profits, combined with unchanged tax rates and only slightly increased dividend disbursements, provided corporations with almost \$5.5 billion in retained earnings—\$750 million more than in the comparable period last year. Depreciation allowances were up \$1 billion, reflecting both the influence of the expanded stock of capital and the effect of the rapid tax-amortization program. Most of the remaining capital funds used to expand investment in the first half of 1953 were raised from new security issues. These amounted to slightly over \$4 billion, about the same as in the first half of last year.

## Liquid Saving Increases

Individuals added \$3.7 billion to their liquid saving in the second quarter of 1953—more than twice as much as in the same quarter a year ago. The largest advance in saving over the year centered in individual holdings of corporate and government securities, liquid saving in this form amounting to almost \$3 billion in the second quarter of this year. During the quarter, individuals increased their holdings of U. S. government bonds (excluding holdings of savings bonds which decreased somewhat) by \$1.2 billion, holdings of state and local government bonds by a record \$800 million, and corporate holdings by \$1.2 billion.

Additions to liquid saving in the form of currency and bank deposits, shares in savings and loan associations, and insurance totaled approximately \$4.0 billion, about the same as in the second quarter of 1952. Partial offsets

ZINC SUPPLY AND DEMAND



Source: U. S. Department of Commerce.

to the rise in liquid saving were further increases in mortgage debt and other consumer debt, mainly installment loans. These advances reflected continued high level expenditures for homes, automobiles, and other consumer durables in the second quarter.

## Farm Productivity Gains

This year's farm output—expected to fall short only of last year's and of the 1948 record—can be attributed in large part to the increasing productivity of America's farmers. Farmers this year are using a fourth fewer man-hours of work, but have almost twice as much farm power and machinery at their disposal as they did 15 to 20 years ago. Increased mechanization coupled with improved production practices such as hybrid seeds, greater use of fertilizer, more effective weed, insect, and disease control have pushed output per acre up 31 percent since 1935-39. Land used for crops is also up slightly, with the result that farmers produced 40 percent more during the years 1948-52 than in the 1935-39 period. The gain from 1935-39 will be even greater in 1953 if early crop estimates are correct (see chart).

These high levels of production are largely responsible for recent declines in prices received by farmers. Roughly a fifth of farm crop marketings have been taken off consumers' markets in the past year in connection with the government's price support program, but prices have fallen as agricultural production outpaced consumer demand and as exports of farm commodities declined. As shown by the chart, farm prices received in the first eight months of 1953 were 13 percent below their average in 1948-52. Prices paid moved up between the two periods with the result that net farm income declined.

The chart also indicates that prices received, despite recent declines, have advanced more since 1935-39 than prices paid. If, however, these increases were related to the same period used by the government in computing its

parity index—1910-14—prices paid by farmers would have advanced about 8 percent more than prices received.

## Small Changes in Employment

Changes in employment were minor between September and October, as both farm and nonfarm employment continued at high levels. Unemployment remained low at about 1.2 million persons. Census data in thousands of workers are as follows:

	October 1953	September 1953	October 1952
Civilian labor force.....	63,404	63,552	63,146
Employment.....	62,242	62,306	61,862
Agricultural.....	7,159	7,262	7,274
Nonagricultural.....	55,083	55,044	54,588
Unemployment.....	1,162	1,246	1,284

## Personal Income Declines Slightly

Personal income amounted to \$286 billion at an annual rate in September, about \$1 billion below August but \$10 billion above September a year ago. For the first nine months of 1953 personal income totaled \$284 billion, at an annual rate, compared with \$276 billion in the same period last year.

The decrease from August stemmed mainly from a decline in factory payrolls, as scattered layoffs throughout the country reduced manufacturing employment and overtime work was reduced in almost all major industries. In most other sectors of the economy, income disbursements were approximately the same as in August.

## Question That Survey

(Continued from page 2)

moment when it is given. As the individual finds opportunity to become better informed, as he gains new experience, he changes. The attitudes, preferences, and plans he endorses when he is first asked about them are subject to change without notice. They are, in fact, bound to change under the impact of new developments; and even in the absence of such developments, he may reconsider when faced with an actual decision.

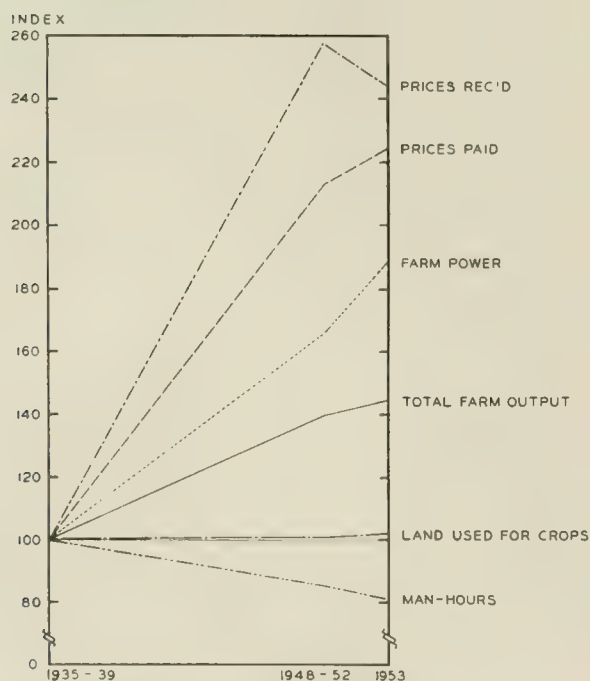
When surveys are properly designed to meet the needs of the immediate problem and the situation in which it is encountered, they provide a valuable tool of research. Useful surveys will no doubt continue to be made in many fields. So also, it may be feared, will some that are not acceptable in concept or in working specifications.

Fortunately, innovations do win out despite the existence of adverse public attitudes. The popular modern home, the so-called ranch-type house, won out despite the architectural preferences and habits based on generations of living in earlier types, and despite the restrictions imposed by tradition-minded lending institutions.

This is a lesson that the history of invention constantly reiterates. The prevailing judgments expressed in current markets are not final. The surveys that reveal them do not necessarily provide a better basis for action than the judgments of the designer, the artist, the scholar, and the engineer. What is at first ridiculed may in time come to dominate. For creative intelligence constantly remakes the world. Its products will be recognized, perhaps at the outset just by the few, but ultimately by all.

Anyone who has a good product is therefore justified in proceeding despite any adverse opinions disclosed by the surveys. He may achieve reasonable success with only a limited group of adherents. But he also stands a chance of displacing something that is now widely accepted.

TRENDS IN AGRICULTURE\*



\* Prices for 1953, average January-August; other data based on August Crop Report.

Sources: U. S. Depts. of Commerce and Agriculture.



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Government Contract Pricing Policies

Businessmen need to bid realistically and competitively when attempting to secure government contracts, according to a recent pamphlet in the Management Aids for Small Business series. This can be done by accurately estimating costs and integrating them with sound pricing methods and procedures and by avoiding certain pricing problems. Management Aid Number 36, *Sound Pricing Policy in Bidding on Government Contracts*, explains ten pitfalls in price setting. Some of these are underestimating costs, overlooking effects of inadequate plant and equipment, depending on unreliable suppliers, disregarding problems of inadequate labor, and using too little or too much "cushion." The main factors which a small businessman should pay particular attention to in developing sound prices for bidding on government business are also discussed. The pamphlet is available from the Small Business Administration, Washington 25, D.C.

### Thickness Measuring Device

A new instrument utilizing air under pressure to measure the variations in thickness of metal foil, plastic sheeting, and newsprint as it is being produced has been manufactured by Roanwell Corporation of Brooklyn, New York. Called Aerosensor, the device works as follows: A small "sensing" nozzle is placed near the material to be measured and air is forced through at a constant rate and pressure. At a calculated distance from the material a back pressure will be induced in the nozzle. The back pressure actuates a recorder. Any deviation in thickness up to 5 millionths of an inch will affect the back pressure and be recorded. The result is a continuous thickness record visible at all times during production, enabling adjustments to be made before tolerances are exceeded.

### Liquid Asset Holdings

Seven out of every ten spending units held liquid assets consisting of deposits in checking and savings accounts at banks, shares in savings and loan associations, and United States government securities, as reported by the 1953 Survey of Consumer Finances. The accompanying chart shows that the proportion of persons with holdings of less than \$200 and those with holdings of more than \$5,000 increased sharply between 1946 and 1953 whereas consumers with moderate liquid assets (\$200 to \$4,999) declined from 55 percent of all spending units in 1946 to 46 percent in 1953.

The median liquid asset holding correspondingly dropped from \$400 at the end of World War II to \$300 early this year—lower in both real and dollar terms because prices have risen sharply. The median liquid asset holding is also lower relative to income since consumer income is much higher today than in 1946. Approximately half of all liquid assets were in the hands of one-fifth of the total number of spending units.

### New Aluminum Chain

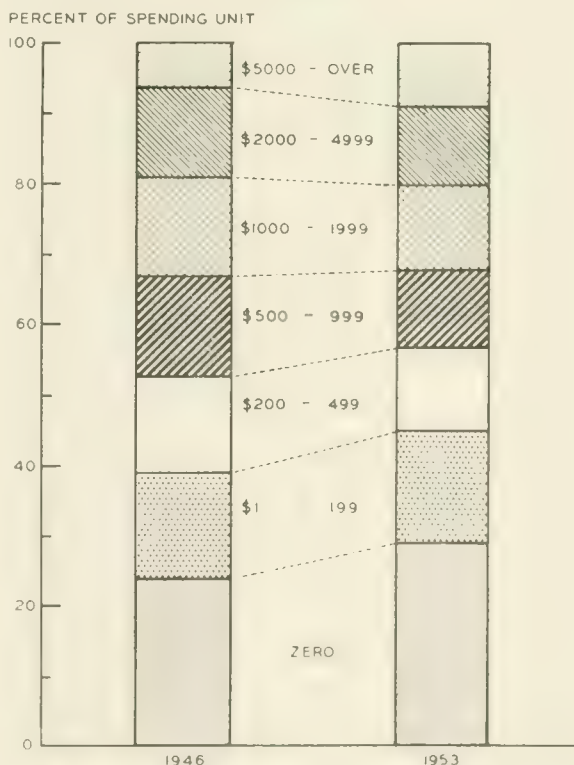
Aluminum chain and cables in standard sizes for both ornamental and commercial use have recently been developed by Bison Metals Corporation, Buffalo, New York. Until now, the only available aluminum chain had small, flat links which were unacceptable for general use.

Because the new chain won't rust and needs no painting, the company hopes it will be used in parks and other public places. But the biggest advantage of the product, according to the manufacturer, is that it is about one-third the weight of iron but is equally strong, which will make it efficient for such jobs as chaining off temporary work aisles from work areas in factories. The product is also adaptable to marine uses, since aluminum chain won't weigh down the bow of the boat when used on an anchor or become corroded by salt water. Prices will run between \$1.65 and \$1.85 a foot for half-inch chain.

### Building Directory

A comprehensive 68-page directory of those public officials in the Midwestern states who administer and enforce codes and regulations governing building construction has just been released by the Midwest Conference of Building Officials and Inspectors. Where the information is available, the *1953 Directory Issue* of the *Midwest Inspection Journal* lists all officials of villages, townships, cities, counties, and states in Illinois, Indiana, Iowa, Kansas, Kentucky, North and South Dakota, Michigan, Minnesota, Missouri, Nebraska, Ohio, and Wisconsin. The types of codes under which the governmental agency regulates building, plumbing, electrical installations, and heating are also furnished. Available from the Midwest Conference of Building Officials and Inspectors, 207 Holiday Building, Indianapolis, Indiana, for \$10.00 per copy, the directory includes a brief résumé of the functions of the Conference.

### DISTRIBUTION OF LIQUID ASSET HOLDINGS BY SIZE



Source: Federal Reserve Bulletin, June, 1953

# RECENT TRENDS IN MONEY MARKETS

JAMES W. LEONARD, Assistant Professor of Economics

Monetary policy, in recent years, has been an area of wide disagreement among economists, businessmen, and especially those who are responsible for the formation and execution of policy, namely, the Federal Reserve System and the Treasury Department.

The major points of controversy were as follows: (1) The Treasury was exerting pressure on the Federal Reserve to support the price of government bonds so as to maintain a low level of interest rates. It was pointed out that a rise in rates of as little as one-half of 1 percent meant an additional interest cost of over \$1.25 billion to the Treasury. (2) Such a policy prevented the Federal Reserve from using open market operations to restrict the money supply. It allowed the commercial banks to obtain an ever-increasing volume of bank reserves, upon which a multiple expansion of bank deposits was possible, by selling government bonds to the Federal Reserve. (3) The level of interest rates was said to be artificially low. A rise in interest rates was held to curb inflationary pressures in the economy, as many felt that businessmen would hesitate to borrow and expand investment at the higher rates.

## Slow Shift to Tight-Money Policy

From the time of Pearl Harbor until 1951 there had been no important change in the policy of the Treasury and the Federal Reserve. It was a cooperative effort designed to provide the Treasury with ample funds at low rates of interest. However, after the inflationary upsurge of the Korean War, the Federal Reserve and Treasury announced an accord on policy in March of 1951. The Treasury announced the issue of a long-term  $2\frac{3}{4}$  percent nonmarketable bond in exchange for outstanding  $2\frac{1}{2}$  percent issues of 1967-72. At the same time the Federal Reserve announced a policy of no rigid peg on the price of government bonds, but still pledged itself to maintain orderly conditions in the money markets.

Thus, the Federal Reserve and Treasury allowed the yields on government securities to rise slightly, but there was no immediate indication that a major shift in policy had occurred. It was several months before the price of bank eligibles dropped below par; but yields on both short- and long-term governments continued up during 1951 and 1952. The Federal Reserve was not entirely out of the money market, but the increase in its holdings of government securities in the eighteen months following the accord was only a fraction of that in the preceding nine months. Nevertheless, this was hardly a tight money market.

With the change of administrations in Washington, a new policy was forthcoming. The major parts of this new policy, as taken from statements of Treasury officials, seemed to be: (1) The policy of maintaining a "fictitious" and "artificially" low rate of interest would be reversed, and the Federal Reserve would be free to adopt monetary policies consistent with a sound economy. (2) The refunding operations of the Treasury would be designed to shift a large portion of the total debt out of short-terms into long-terms. The purpose of this was to simplify debt management and relieve the Treasury of the necessity of making a weekly visit to the money market. It was realized, of course, that both aspects of this policy would increase the cost of Treasury financing.

Under the new policy, the Federal Reserve allowed the money market to "tighten" by making no purchase of government securities in the open market during a period when commercial banks were expanding loans and the Treasury was borrowing quite heavily on short term. This put pressure on bank reserves and tended to force interest rates up. Interest rates were rising, not only because of these factors, but also because the market had sensed a forthcoming change in Treasury debt management policy.

## Extent of Rise in Interest Rates

This change came on May 1. On that day the Treasury announced a new issue of 30-year  $3\frac{1}{4}$  percent bonds. This action was in accord with the previously announced policy of shifting a larger portion of the Federal debt into long-term securities. The issue was quickly oversubscribed; but this  $3\frac{1}{4}$  percent issue ushered in a new period in the money market, a period which can best be described as one of uncertainty.

The situation was one where the Federal Reserve had not been in the money market for three months, and then the Treasury came out with a higher interest rate on a long-term issue. The general expectation was that of further rises in the general level of rates. Such an expectation induces investors to sell and wait to reinvest at the higher rates. As a result, the price of long-term governments, including the newly issued  $3\frac{1}{4}$ s, declined sharply after the new issue was sold.

The acute phase of this movement developed at the end of May. The new  $3\frac{1}{4}$ s went below par and the 1967-72's dropped below 90. This happened even though the Federal Reserve increased its holdings moderately to prevent the development of market disorder and stepped up purchases sharply after it appeared.

The interest rate paid by the Treasury on short-term borrowing also rose sharply. The situation in the long-term market might have led to a fall in the short-term rate if investors shifted from long-term to short-term securities in expectation of future rises in the long-term rate. However, the Treasury was borrowing heavily in the short-term market because of the weak position of their long-terms; and with business also borrowing heavily, the forces from the demand side of the market seemed to dominate. In July the Treasury borrowed \$5.5 billion by the issue of 8-month certificates at an interest cost of  $2\frac{1}{2}$  percent. This was the highest interest rate the Treasury had paid on short-term borrowing since March, 1933. In August the Treasury paid  $2\frac{3}{8}$  percent on a one-year certificate to replace a 2 percent one-year certificate; this was the highest rate paid on a one-year security in 20 years.

In line with this trend, the commercial banks raised the rate on prime commercial paper, and also became much more selective in their evaluation of credit risks. These factors tended to add to the "tightness" in the money market.

## Quick Reversal of Policy

During the summer months the Federal Reserve System seemed to be undecided as to what its policy should be. In May and June the System increased its holdings of U. S. government bonds by \$1.1 billion. This action



tended to increase bank reserves. On June 25 the Board of Governors reduced member bank reserve requirements, which created another billion in reserves for the banking system.

The Federal Reserve maintained that these actions were not reversals of their adopted tight money policy. It is true that these actions by the Federal Reserve had only limited easing effects on the money market and interest rates for a while. During this period, however, there was a swing in sentiment which led to general acceptance of the idea that a business downturn was in prospect. In this case, anti-inflationary measures would no longer be necessary; and at some time during the summer, action to prevent too extreme a rise in interest rates merged into a return to an easy money policy.

During September and the early weeks of October, the reversal of trend became very rapid. There were several factors back of this change. For one thing, the Federal Reserve definitely made up its mind to reverse the tight money policy. They did this, no doubt, with Treasury approval. Between August 13 and October 7 the Federal Reserve increased its holdings of U. S. government securities by \$2 billion. This, of course, tended to increase bank reserves and make credit easier.

At the same time, there was a decrease in the demand for business loans. This factor was of primary importance in the change in money market conditions. Between June 24 and October 7, commercial, industrial, and agricultural loans increased only about one-third as much as they did during the same period last year. The commercial banks suddenly found themselves with excess reserves and plenty of money to lend, but a decreased demand from business borrowers.

The result was that the excess funds held by the commercial banks tended to flow into short-term government securities. This increase in funds going into short-term Treasury bills forced the yield on these securities down. The rate on 91-day Treasury bills hit a 19-month low in early October, and by the end of the month hit a three-year low of  $1\frac{1}{4}$  percent. The speed of the decline was unmatched in recent years—not indeed since the crisis of 1933.

During October the rate on prime commercial paper was reduced three times by  $\frac{1}{8}$  of 1 percent to a level of  $2\frac{3}{8}$  percent. These reductions were the first in this market since 1951. At the same time the yields on long-term government bonds also began to fall. By the end of October, the 30-year  $3\frac{1}{4}$ s were selling at 104, the highest price since the issue was sold, and the 1967-72's were back to the level at which they opened the year.

The extent to which the previous high rates were responsible for the decline in the demand for funds on the part of business borrowers would be difficult to determine. It probably had very little effect. A much more important factor would be a more pessimistic outlook as to future profit prospects by businessmen. This conclusion is supported by remarks made by bankers at the recent convention of the American Bankers Association. Bankers had been rejecting loans at the higher rates, loans which they were now scrambling for at lower rates.

### Shorter Maturities for Governments

Part of the new policy was the plan to lengthen the maturity distribution of the Federal debt. However, the Treasury soon discovered that it is a poor time to attempt any long-term financing when there is a downward pressure on the prices of outstanding long-term issues. In

February, when lenders were given a choice between a one-year certificate paying  $2\frac{1}{4}$  percent and a five-year-ten-months bond paying  $2\frac{1}{2}$  percent, only \$620 million of a total of almost \$9 billion was put into the bonds. The issue of 30-year  $3\frac{1}{4}$ s amounted to only \$1 billion and could not make a large contribution to lengthening maturities. As a result, the Treasury was forced to temporarily abandon its plan of extending the maturity of the debt.

In fact, the maturity distribution of the over-all debt tended to become shorter than it was before, because the Treasury was compelled by necessity to rely on the short-term market to refund maturing long-terms. Even after interest rates began to slide, lenders showed a preference for short maturities. An example was the refunding of the 2 percent bonds due September 15. Holders were given a choice between  $2\frac{3}{8}$  percent one-year certificates and  $2\frac{7}{8}$  percent three-and-one-half-year notes. Over 60 percent of the bonds exchanged went into the certificates.

The new monetary policy seems, therefore, to have fallen short of the stated purposes. The anti-inflationary effects are not noticeable; the cost of living index has continued to edge upward. The Treasury was forced to abandon, temporarily at least, its plan of increasing the maturity distribution of the debt. The service burden of the debt is considerably heavier; and bank earnings have increased substantially.

Recent statements by Treasury officials imply that they are happy about the return of low rates. They are now considering resuming operations toward their objective of increasing the maturity of the debt. However, these statements have been in terms of an intermediate, seven-year security. They are not ready to try floating another long-term issue, even though the present  $3\frac{1}{4}$ s are selling four points above par.

### The Effectiveness of Monetary Policy

All this raises certain questions in regard to monetary policy as a control device. As an anti-inflationary weapon, the results will depend, to a certain extent, on the effectiveness of increases in interest rates in reducing investment. In our economy, this interest rate effect is not likely to be great, especially where the increases are of modest proportions. The relatively high returns expected in most areas of investment tend to make interest rates of less importance as a cost item. Public utility investment, which carries a high degree of certainty, would be an exception to this situation. Recently the number of rejections on bond issues made by public utilities has been noticeable when interest rates rose.

However, monetary policy can be used to reduce the availability of funds for short-term investments by choking off bank reserves. Such a policy was followed for a short time during 1953, but it was more of a passive standing aside than a positive action on the part of the Federal Reserve. In this regard, it should perhaps be pointed out that the tight money policy was limited by the fact that the fiscal operations of the Treasury were working toward an opposite objective.

One of the dangers in tightening the money supply is that of going too far and starting a downturn in economic activity. Even if the downturn was produced by other causes, the monetary authorities might be accused of bringing it on. Possibly fear of such a result accounts for the quick reversal of policy last summer, which stands as a unique attempt to support the economy before recession could actually get under way.

# LOCAL ILLINOIS DEVELOPMENTS

Illinois business activity in September was generally off from the August level but most indicators remained higher than in the same month a year ago. Nonfarm employment in the State rose to 3.4 million in September—a new high for 1953.

## Illinois Teachers

Illinois may need twice as many schoolteachers in 1975 as it has now, according to Dr. William C. Reavis of the State Teachers College Board. The State currently employs about 48,500 teachers, but if expected increases in population are realized, it will need almost 97,000 teachers by 1975. Consequently, efforts are being made to expand teacher training facilities in the State. Northern Illinois State Teachers' College at DeKalb is trying to buy 1,000 acres of land adjoining its present campus, and Western Illinois State College at Macomb has already obtained preliminary approval of a Federal loan for two new men's dormitory units.

## Gains in Electric Power Consumption

Consumption of electric power during the first nine months of 1953 rose above the same period of last year in all of the 14 major urban centers in the State. The chart below shows the relative increase in consumption in selected cities during this period. The largest gain, almost 18 percent, was reported in Rockford, where employment has consistently remained higher than in 1952 and unemployment has dropped off from a year ago. Consumption of electric power in the Rock Island-Moline area from January through September also increased substantially—up 14 percent from 1952. In Peoria, Champaign-Urbana, Alton, Springfield, East St. Louis,

and Quincy, consumption of electric power rose less than the average.

## Consumer Prices Rise Again

Consumer prices in Chicago edged upward for the sixth consecutive month in September when the index advanced to 116.6 percent of the 1947-49 level. Compared with September, 1952, the index was up 1.4 percent. Housing costs rose more than any other item during the past year, chiefly as the result of a 15 percent increase in rent. Medical care was up 4.3 percent, and apparel and reading and recreation costs were each 2.0 percent higher than in September of last year. Partly offsetting these gains were declines in personal care and food.

## Illinois Annual Tax Bill

The average Illinois resident pays \$739.74 per year in taxes, according to estimates made by the Taxpayers Federation of Illinois. Taxes collected from all State residents amount to \$6.4 billion annually, or at a rate of \$200 every second through the year. Included in the total are Federal taxes collected in Illinois of \$5.1 billion, State taxes of \$547 million, local taxes of \$646 million, and local licenses, fees, and other receipts of \$160 million.

## Building in Illinois

Construction contracts awarded in Illinois during September totaled \$88.3 million, down seasonally from August but up 27 percent from September a year ago. Although awards for public works and utilities declined almost 12 percent from September, 1952, residential construction rose 30 percent and nonresidential awards were up 54 percent.

Total contracts awarded during the first nine months of 1953 amounted to \$901.6 million as compared with \$804.5 million in 1952. Residential awards increased most (up 15 percent from 1952), followed by nonresidential contracts awarded (up 11 percent) and public works and utilities (up 9 percent).

Construction recently began on a \$5-million General Electric Company plant at Bloomington, Illinois. The site of the new factory is a 66-acre tract where U. S. Highway 66 crosses the Illinois Central Railroad tracks two miles from Bloomington. Completion of the plant, which is expected to employ about 1,000 persons, is scheduled for late in 1954.

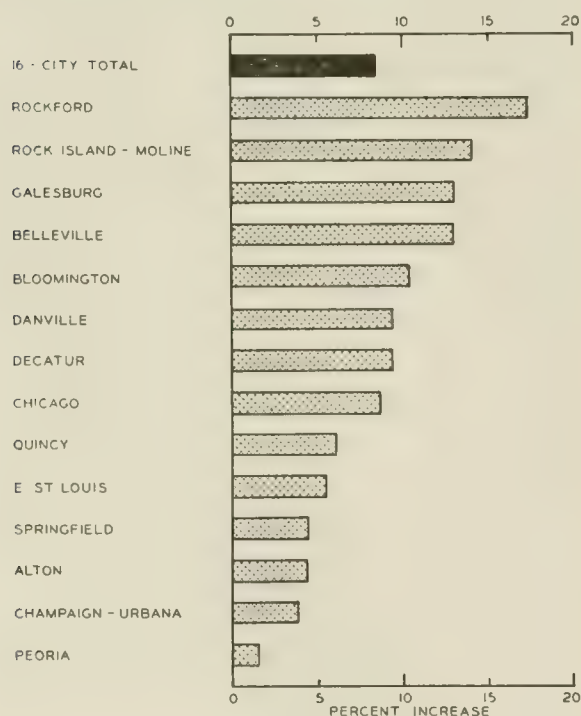
## Crop Production Off from Last Year

Most Illinois crops have been adversely affected by high temperatures and a lack of rainfall. Dry soil conditions have retarded germination and made seedbed preparation this fall slow and difficult. The condition of pastures, which deteriorated in all but the northern end of the State, was reported on October 1 to be the poorest since the drouth year of 1936.

The latest estimate of 1953 corn production was 491 million bushels, substantially smaller than the 1952 crop but well above the 10-year average. Estimated yield of 54 bushels per acre is 4 bushels smaller than last year but 3 bushels larger than the average yield for the past ten years. Fall weather conditions also were responsible for a decline in soybean production, which was estimated at 76 million bushels as compared with 85 million last year and a 10-year average of 79 million bushels.

### ELECTRIC POWER CONSUMPTION

Percent Change Jan.-Sept., 1952, to Jan.-Sept., 1953



Source: Local power companies.



# COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

September, 1953

	Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b> .....	\$23,718 <sup>a</sup>	932,238 <sup>a</sup>	\$513,378 <sup>a</sup>		\$12,584 <sup>a</sup>	\$13,695 <sup>a</sup>
Percentage Change from.....	Aug., 1953..... Sept., 1952.....	+0.6 +7.5	-1.0 +6.9	+9 0	+6.4 +9.4	+26.8 +9.9
<b>NORTHERN ILLINOIS</b>						
<b>Chicago</b> .....	\$16,829	720,141	\$362,427		\$11,485	\$12,152
Percentage Change from.....	Aug., 1953..... Sept., 1952.....	+1.2 +6.5	-3.5 +4.4	+9 -1	+6.4 +9.7	+29.4 +10.8
<b>Aurora</b> .....	\$ 182	n.a.	\$ 7,210		\$ 47	\$ 98
Percentage Change from.....	Aug., 1953..... Sept., 1952.....	-32.6 -58.2	-1.9 +4.5	-2 -5	+3.0 +14.3	-4.3 +10.2
<b>Elgin</b> .....	\$ 454	n.a.	\$ 5,549		\$ 30	\$ 92
Percentage Change from.....	Aug., 1953..... Sept., 1952.....	-17.3 +76.0	+2.3 +8.8	n.a.	+8.9 +9.6	+5.6 +0.1
<b>Joliet</b> .....	\$ 302	n.a.	\$11,348		\$ 62	\$ 77
Percentage Change from.....	Aug., 1953..... Sept., 1952.....	-27.4 -55.1	-8.6 +12.6	+12 +9	+6.2 +18.7	+3.0 -3.9
<b>Kankakee</b> .....	\$ 220	n.a.	\$ 5,346		n.a.	\$ 31
Percentage Change from.....	Aug., 1953..... Sept., 1952.....	-9.8 +7.8	-1.5 +13.4	n.a.		+14.7 -6.5
<b>Rock Island-Moline</b> .....	\$ 944	18,181	\$ 9,361		\$ 77 <sup>b</sup>	\$ 159
Percentage Change from.....	Aug., 1953..... Sept., 1952.....	+22.4 -0.9	-2.0 +22.7	n.a.	-1.2 +4.0	+12.8 +34.5
<b>Rockford</b> .....	\$ 919	31,256	\$18,895		\$ 130	\$ 149
Percentage Change from.....	Aug., 1953..... Sept., 1952.....	+2.1 +1.1	-1.5 +13.2	+9 +11	+2.3 +7.6	+4.2 +0.0
<b>CENTRAL ILLINOIS</b>						
<b>Bloomington</b> .....	\$ 197	6,725	\$ 6,778		\$ 59	\$ 95
Percentage Change from.....	Aug., 1953..... Sept., 1952.....	+58.9 -50.4	+1.0 +10.9	n.a.	+12.6 +9.7	+22.8 -5.5
<b>Champaign-Urbana</b> .....	\$ 324	7,996	\$ 6,575		\$ 53	\$ 76
Percentage Change from.....	Aug., 1953..... Sept., 1952.....	+47.9 -43.4	+2.6 +12.1	n.a.	+12.2 +3.3	+9.2 -6.7
<b>Danville</b> .....	\$ 73	8,662	\$ 6,037		\$ 40	\$ 49
Percentage Change from.....	Aug., 1953..... Sept., 1952.....	-54.4 -62.4	-1.8 +9.8	-10 -2	-2.0 +1.7	+1.7 +1.5
<b>Decatur</b> .....	\$ 420	22,267	\$16,489		\$ 101	\$ 97
Percentage Change from.....	Aug., 1953..... Sept., 1952.....	-70.3 +118.8	+1.3 +14.9	-2° -2	+30.9 +2.6	+9.8 -1.6
<b>Galesburg</b> .....	\$ 747	6,779	\$ 4,037		n.a.	\$ 34
Percentage Change from.....	Aug., 1953..... Sept., 1952.....	+277.3 +172.6	+6.1 +25.8	n.a.		+26.3 +9.4
<b>Peoria</b> .....	\$1,197	45,628 <sup>c</sup>	\$17,046		\$ 197	\$ 207
Percentage Change from.....	Aug., 1953..... Sept., 1952.....	+158.5 +73.0	-6.9 +2.9	-1° +4	-0.9 +7.1	+13.0 +4.0
<b>Quincy</b> .....	\$ 158	7,317	\$ 4,634		\$ 35	\$ 58
Percentage Change from.....	Aug., 1953..... Sept., 1952.....	-41.5 -37.8	-5.8 +8.7	-3 -2	+3.7 +5.8	-10.4 -11.4
<b>Springfield</b> .....	\$ 578	26,129°	\$12,460		\$ 98	\$ 203
Percentage Change from.....	Aug., 1953..... Sept., 1952.....	+92.7 -8.8	-4.5 +11.0	n.a.	+6.8 +11.6	+25.6 +3.3
<b>SOUTHERN ILLINOIS</b>						
<b>East St. Louis</b> .....	\$ 83	13,975	\$ 9,581		\$ 133	\$ 57
Percentage Change from.....	Aug., 1953..... Sept., 1952.....	-77.9 -77.9	+28.6 +14.6	n.a.	+14.0 -1.8	+1.0 +6.4
<b>Alton</b> .....	n.a.	11,723	\$ 5,105		\$ 36	\$ 27
Percentage Change from.....	Aug., 1953..... Sept., 1952.....	-2.6 +7.8	+2.1 +10.0	n.a.	+2.7 +15.5	+10.8 +12.2
<b>Belleville</b> .....	\$ 91	5,460	\$ 4,502		n.a.	\$ 35
Percentage Change from.....	Aug., 1953..... Sept., 1952.....	+21.3 +75.0	-12.5 +3.4	n.a.		-1.2 +1.3

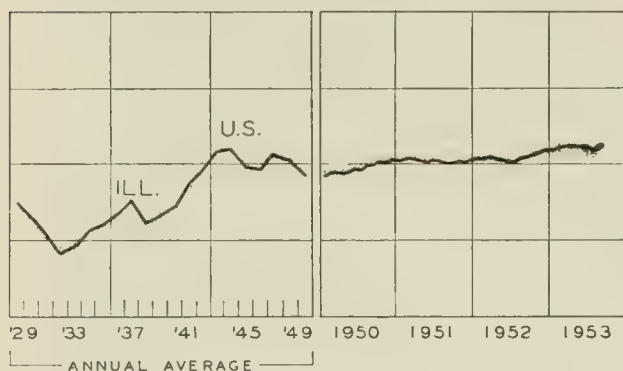
<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.

Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for August, 1953, the most recent available. Comparisons relate to July, 1953, and August, 1952. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

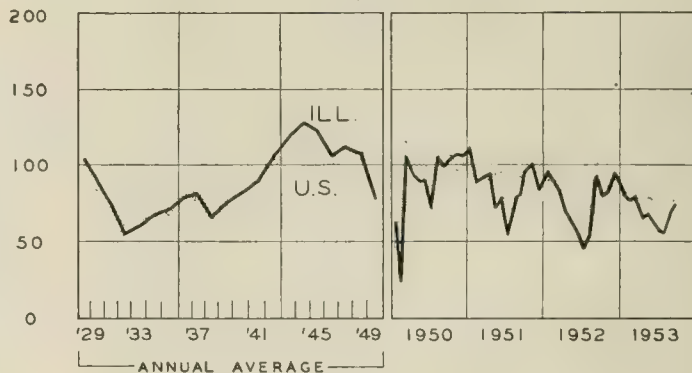
# INDEXES OF BUSINESS ACTIVITY

1947-1949=100

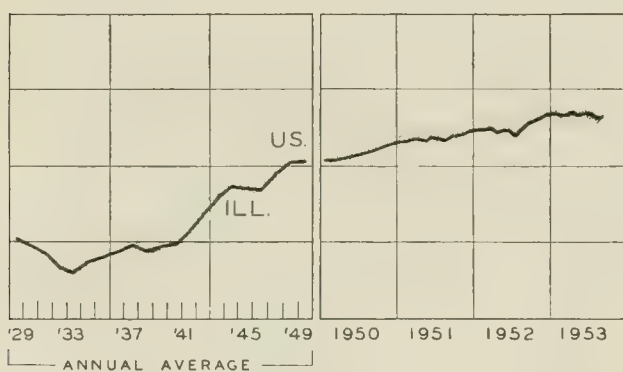
## EMPLOYMENT - MANUFACTURING



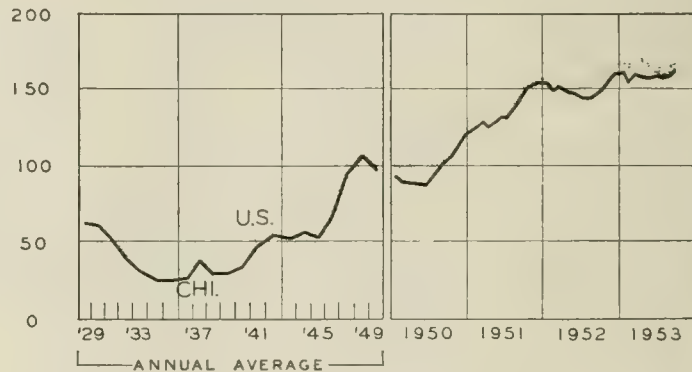
## COAL PRODUCTION



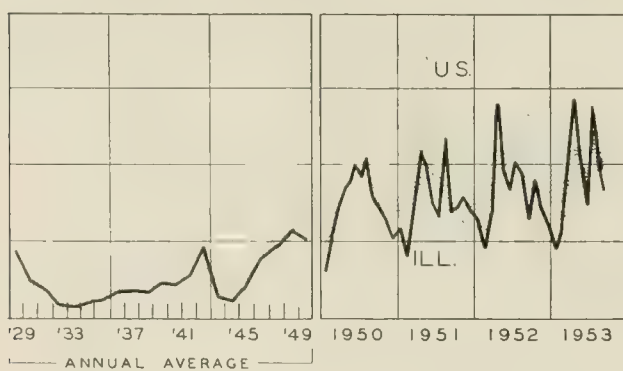
## AVG. WKLY. EARNINGS - MANUFACTURING



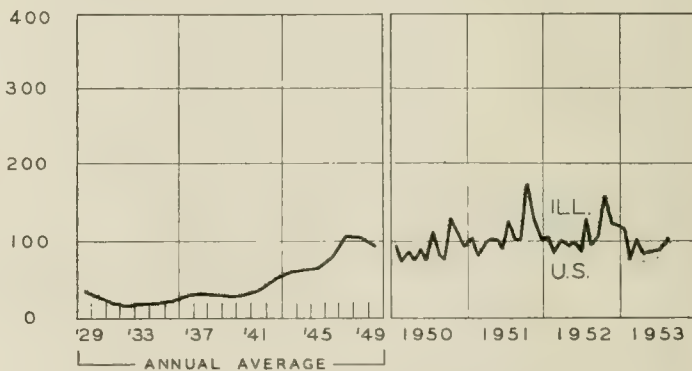
## BUSINESS LOANS



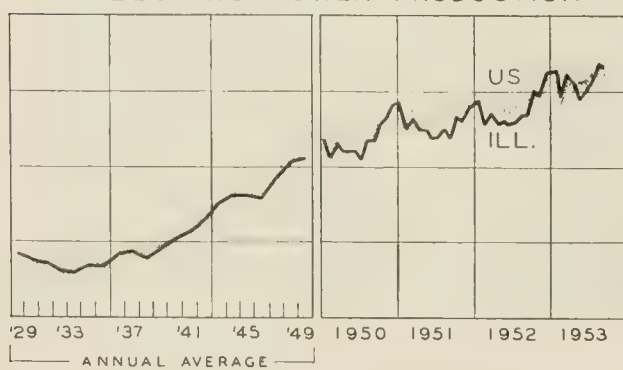
## CONSTRUCTION CONTRACTS AWARDED



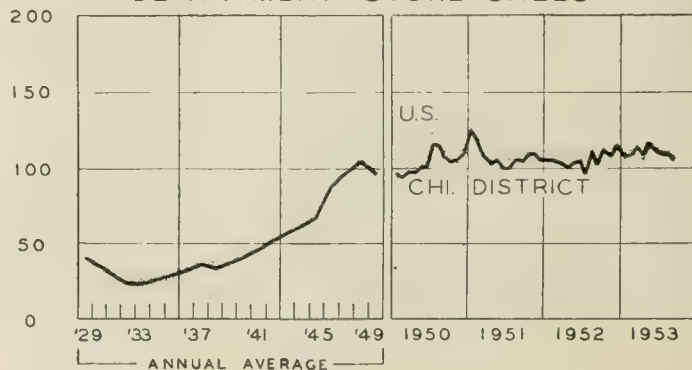
## CASH FARM INCOME



## ELECTRIC POWER PRODUCTION



## DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME X

DECEMBER, 1953

NUMBER 12

## HIGHLIGHTS OF BUSINESS IN NOVEMBER

Industrial activity declined for the third month in succession in November. Down an estimated three points from the October level of 231 percent of the 1935-39 average, the Federal Reserve index of industrial production in November was below the level of the corresponding month of 1952 for the first time this year. Automobile production fell 30 percent in November principally because of model changeovers.

Notwithstanding this decline and unseasonably warm weather, retail sales during the month totaled \$14 billion, the same as last November and 2 percent above the October level on a seasonally adjusted basis.

### Labor Situation Eases

Some easing of the tight labor situation was apparent in November. Unemployment at the middle of the month was up about 300,000 from the October level, but remained below 1.5 million. The increase resulted mainly from layoffs of factory workers as some plants reduced operations. Farm employment declined seasonally to 6.7 million, down half a million from the October level.

Despite these declines, total nonfarm employment was bolstered by continued high construction activity and by the fall pickup in retail trade. As a result, the number of people at work in nonfarm activities rose to 55.3 million, close to the postwar high in March.

Weekly wages of factory workers have registered little change. The average factory production worker in mid-October earned \$71.73 per week, only slightly below the peak of \$72.14 per week last December.

### Manufacturers' Inventories Decline

Manufacturers' inventory holdings declined \$200 million in October after adjustment for seasonal variations, reflecting a desire to reduce their vulnerability in case of a possible recession. At \$45.9 billion, manufacturers' stocks at the end of October exceeded the figure for a year earlier by \$3 billion.

Manufacturers' sales in October were well maintained, falling only slightly below the September level on a seasonally adjusted basis. New orders, seasonally adjusted,

were also at about the September level, though they amounted to \$3 billion less than sales for the month and were down substantially from last October. As a result, unfilled orders on the books of manufacturers at the end of October declined to \$61.4 billion. This represents a drop of one-fifth over the past year. Most of the decline was in durable goods, reflecting in large measure reductions in military procurement.

### Construction Activity in 1954

The value of new construction put in place next year is expected to decline but slightly, about 2 percent, from this year's record level of nearly \$35 billion. According to predictions by government agencies, private construction activity should decline about 3 percent next year, while public construction expenditures are expected to be only slightly less than this year's peak level.

Reduced activity is foreseen in defense installations (down 12 percent), industrial building (down 14 percent), farm construction (off 12 percent), and in private homebuilding (down 4 percent). Housing starts next year are estimated at about one million units, 8 or 9 percent below the 1953 figure. These declines are expected to be largely offset, however, by increased activity in commercial building (estimated to rise 15 percent), religious and educational building (up 9 percent), public utility construction (up 3 percent), and highway programs (up 10 percent).

These forecasts assume continuing high levels of employment and income, and no significant change in the international situation.

### Capital Expenditure Outlook Bright

A major prop to continuance of high-level activity is provided by the capital expenditure plans of business for the first quarter of next year. Outlays for new plant and equipment by business firms during this period are expected to aggregate \$28 billion at a seasonally adjusted annual rate. Though slightly below current levels, fulfillment of these plans would mean an increase in capital outlays of \$800 million, at annual rates, from the first quarter of this year.

#### NOTICE

This is a final reminder to those who would like to keep on receiving the *Illinois Business Review*. This will be the last issue sent to those who do not return the card we sent last month or otherwise indicate a desire to remain on the mailing list.

# ILLINOIS BUSINESS REVIEW

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## Economic Statesmanship

There is a never-ending fight that must be fought in a democracy like ours. It is the fight to prevent pressure groups from realizing undue benefits at the expense of others and thus undermining the unity on which a voluntary association of free men must rest.

The intensity of the demands for special advantage is apparently aggravated by fears that somebody else may be getting a little more than his share. Farm parity legislation has been frequently cited by other producer groups as a reason why they, too, should receive special consideration. Now we find some of our correspondents, in replying to our October article "Farm Price Supports," citing government subsidies to business as a justification for that program.

### Too Many Subsidies

It is true that there are many other forms of subsidy to business. In fact, the public is little aware of just how pervasive these devices for benefiting at its expense really are. The payments to support farm prices are merely one of the best known and most widely discussed.

The government pays more than the free market value for a number of goods and services. Certain metals, such as silver, and some services, such as payments to airlines for carrying mail, are directly subsidized in this way. The government also assumes part of the capital investment in certain industries—for example, part of the cost of building new ships and airports.

It also supplies services below cost. The low rate on second-class mail represents a substantial subsidy to publishers of newspapers and magazines.

Still other subsidies take the form of assuming part of the costs of product development or industrial expansion. The tax exemption granted to oil producers in the form of heavy depletion allowances is a case in point. Another is the provision for rapid amortization of productive facilities, many of which are for civilian rather than defense use; insofar as this results in lower total taxes, it becomes an effective subsidy.

The tariff laws also subsidize a wide range of producers. They are just another way of keeping prices high; and the tax that raises the price of the imported commodity is in effect rebated to domestic producers.

In our opinion none of these subsidies can be justified on the basis that the others have also been granted. Nor does the fact that any such subsidy is small, or that it is

smaller than another, represent a sound argument for its continuance.

### A World of Protected Producers

The problem is not confined to subsidies, of course. On various occasions reference has here been made to the way producer groups strive for government action to bolster their positions; and the advantages gained when their proposals are approved may be of greater importance than any subsidy that could be hoped for. Perhaps it is inevitable that some compromises will be made with such groups, since their influence rises with the resources or the number of votes they command.

Some of them may be strategically enough situated so that they do not require favors. Others hope for shelter from competition through "fair trade" or other measures that restrict the play of market forces. The antitrust laws are no doubt widely supported by producers as well as consumers, but there is a tendency on the part of many to feel that what they want to do should not be considered monopolistic, and therefore not within the purview of antitrust legislation.

Partly as a result of government inconsistency or laxity, and partly as a result of irreversible trends in technology, distribution, and finance, we increasingly find ourselves creating a world of protected producers. Each has, or is seeking, a means of keeping his price high. Generally the means to this end are restrictive, so that production and employment are reduced; and although the restriction may as a rule be only moderate, it produces a tendency toward deflation.

At the same time, the government has accepted responsibility for maintaining conditions of full employment. Reports from Washington indicate that the Council of Economic Advisers is even now drafting plans for sustaining the economy in the event that the recession grows to substantial proportions. Among the measures contemplated are both expenditure increases and tax reductions.

What the success of this policy implies, over the long run, is that surplus earnings held immobile in the private economy will be compensated by government deficits. The accumulation of assets by private producers will be accompanied by a growth of government debt; and the role of government in economic affairs will be ever expanding.

### The Consumer's Point of View

The inconsistency of "log-rolling" measures that aggravate this broader problem, which must then be solved by other measures, should be apparent to everyone. That it is not—and particularly that it is not to the congressmen whose votes make the decisions—is symptomatic of a condition that grows more serious as specialization and stratification permeate the social order.

One of the best ways to break the circle of concession, partial adjustment, and further concessions to alleviate the disadvantages of special groups would be to deal with our economic problems from the consumer's point of view. The importance of consumption in our economic system is given strong emphasis in Paul Mazur's little book, *The Standards We Raise*. To prosper, he says, we have to keep our living standards moving up in step with our ability to produce. The corollary is, What is good for the consumer is good for the country.

Viewing things in this perspective lifts the policy maker out of the realm of petty political considerations.

(Continued on page 6)



## **PAPERBOARD BOXES**

The carton or paperboard box, although usually taken for granted, performs an extremely important function in the American economy. Modern large-scale production and distribution require packages and shipping containers which are capable of getting goods to the consumer in good condition without adding significantly to the cost. In order to understand the importance of such packages it is only necessary to try to visualize the problem of marketing breakfast foods, chocolates, or even wearing apparel, or the difficulties facing the development of pre-packaged and frozen foods without the paper box.

### **Paper Box Production Shows Steady Growth**

Growth in demand for paper boxes, which began in the 1890's, has shown little sign of slackening. During the years from 1939 to 1947, the number of employees in the paper box industry in the United States increased by 72 percent and the value added (total value of shipments less the cost of materials) increased by 256 percent. Advancing sales continued into 1953 as bookings for the first 10 months stood 17 percent above the same months of 1952.

Although rising business activity has been an important factor in the growth in demand for paper boxes, the development of low-cost methods of producing boxes for special purposes has also been important. Such boxes not only provide satisfactory packaging of greasy products like lard and products which must be kept moisture-free, such as explosives, but avoid costs of salvage and recleaning which would be necessary for re-use.

### **The Industry in Illinois**

Illinois ranks third among the states in the manufacture of paper boxes. Production in this State grew at a rate exceeding that of the nation as a whole during the years 1939 to 1947. During this period, the number of establishments in Illinois increased from 100 to 152, employment grew from 5,400 to 11,500, salaries and wages jumped from \$6.6 million to \$31.7 million, and value added went from \$13.1 million to \$68.3 million.

The paper box industry consists, for the most part, of small plants. In 1947, over 80 percent of the industry's establishments in the State employed less than 100 workers and today even the largest firms, such as the Eddy Corporation, the Chicago Carton Company, Morris Paper Mills, Atlas-Boxmakers, and the W. C. Ritchie Company, employ less than 2,000 workers each.

The industry is highly concentrated geographically, with almost 90 percent of the State's firms located in the Chicago area and most of the remaining 10 percent located around Rockford and Peoria.

### **Set-up Boxes and Folding Boxes**

Two main types of boxes may be distinguished according to their functions: the type in which goods are sold to the consumer and the type in which goods are shipped. The former type may be further distinguished, according to the type of construction, into folding cartons and set-up paper boxes.

Folding cartons are either plain or printed packages made by bending cardboard which has been cut and creased in a variety of sizes and shapes; they may be glued at the factory or delivered in collapsed form. Although the first commercially produced folding paper box appeared in 1839, their high cost prevented widespread use until the turn of the century. In 1900 only 68 plants with approximately 2,500 employees were engaged in the manufacture of folding cartons in the United States. By 1950 this number had grown to 560 plants employing 45,000 trained men. It has been estimated that 620 folding paper boxes are produced yearly for every man, woman, and child in the nation.

The set-up box is a noncollapsible container manufactured chiefly from paper or paperboard and delivered to the consumer ready for use. The first manufacture of set-up paper boxes in the United States, which took place in 1839, was by Aaron Dennison whose tools consisted of a shoe knife and a cobbler's bench. Today, although many set-up boxes are still made by hand to meet special requirements, the great majority are produced by machines that enable three people to turn out a complete box every 1½ seconds.

Both folding and set-up boxes are often custom designed and may be waxed, greaseproofed, or moisture-proofed. Set-up boxes are made of a particularly wide assortment of materials and range from simple tie boxes to elaborate jewelry boxes containing leather, velvets, velour papers, and a wide range of embossed and fancy papers.

### **Shipping Containers**

For the greater strength and durability required in shipping containers, corrugated cartons have been found most useful. Like folding and set-up boxes, corrugated cartons come in many sizes and shapes and in a wide variety of physical characteristics. The weight of paper used depends on the degree of physical punishment that the carton is expected to receive and the weight of the goods to be shipped therein. The number and type of corrugated layers are determined by the cushioning effect required and the desired stacking strength.

Another type of shipping container occasionally used is the solid fiber box. Because of their greater resistance to puncture and scuffing, less deterioration due to the elements, and their reusability, they are sometimes used in preference to corrugated containers. The low stacking strength and comparatively high initial cost necessarily restrict the use of solid fiber boxes.

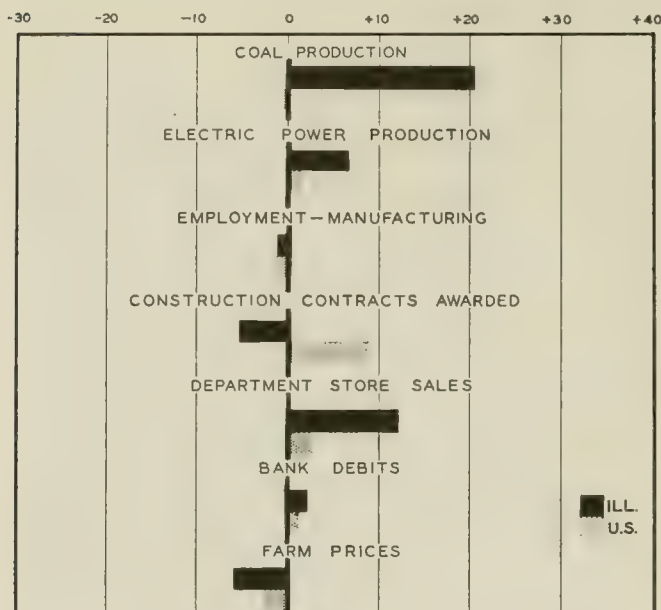
Although the future prospects of the paper box manufacturing industry are bright, stiff competition from glass, metal, and plastic containers makes the constant improvement of paper containers imperative. Increasingly, some of the qualities of these other materials are being incorporated in the paper container, by coating the paper itself, adding layers of foil, or other methods. This extreme versatility assures the ability of the paper container to meet the competitive challenge.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes September, 1953, to October, 1953



## ILLINOIS BUSINESS INDEXES

Item	October 1953 (1947-49 = 100)	Percentage Change from	
		Sept. 1953	Oct. 1952
Coal production <sup>2</sup>	92.0	+20.4	+16.1
Electric power <sup>1</sup>	175.9	+6.5	+16.6
Employment—manufacturing <sup>3</sup>	110.5	-1.2	+3.0
Payrolls—manufacturing	n.a.		
Dept. store sales in Chicago <sup>4</sup>	107.0 <sup>a</sup>	+4.9	-3.6
Consumer prices in Chicago <sup>5</sup>	117.1	+0.4	+1.8
Construction contracts awarded <sup>6</sup>	157.9	-5.1	-12.1
Bank debits <sup>7</sup>	147.0	+2.1	-1.1
Farm prices <sup>8</sup>	98.9	-5.9	-10.6
Life insurance sales (ordinary) <sup>9</sup>	151.8	+10.6	+10.9
Petroleum production <sup>10</sup>	94.9	+4.1	+0.2

<sup>1</sup> Federal Power Commission; <sup>2</sup> Illinois Department of Mines; <sup>3</sup> Illinois Department of Labor; <sup>4</sup> Federal Reserve Bank, 7th District; <sup>5</sup> U. S. Bureau of Labor Statistics; <sup>6</sup> F. W. Dodge Corporation; <sup>7</sup> Federal Reserve Board; <sup>8</sup> Illinois Crop Reports; <sup>9</sup> Life Insurance Agency Management Association; <sup>10</sup> Illinois Geological Survey.  
<sup>a</sup> Seasonally adjusted. n.a. Not available.

## UNITED STATES MONTHLY INDEXES

Item	October 1953	Percentage Change from	
		Sept. 1953	Oct. 1952
Personal income <sup>1</sup>	287.3 <sup>a</sup>	+0.3	+3.6
Manufacturing <sup>1</sup>			
Sales	297.6 <sup>a</sup>	-0.4	0.0
Inventories	46.3 <sup>a,b</sup>	-0.4	+6.7
New construction activity <sup>1</sup>			
Private residential	12.5	-3.0	-0.6
Private nonresidential	12.8	-1.8	+11.7
Total public	13.3	-1.3	+2.1
Foreign trade <sup>1</sup>			
Merchandise exports	14.7 <sup>c</sup>	+4.3	+0.7
Merchandise imports	11.1 <sup>c</sup>	+10.0	+5.6
Excess of exports	3.6 <sup>c</sup>	-10.1	-11.9
Consumer credit outstanding <sup>2</sup>			
Total credit	28.2 <sup>b</sup>	+0.7	+16.6
Installment credit	21.5 <sup>b</sup>	+0.7	+22.0
Business loans <sup>2</sup>	23.3 <sup>b</sup>	+0.9	+3.8
Cash farm income <sup>3</sup>	44.4	+15.9	-7.4
Indexes (1947-49 = 100)			
Industrial production <sup>2</sup>			
Combined index	125 <sup>a</sup>	-0.4	+0.4
Durable manufactures	141 <sup>a</sup>	+1.0	+1.3
Nondurable manufactures	113 <sup>a</sup>	-1.0	-0.5
Minerals	110 <sup>a</sup>	-4.7	-1.8
Manufacturing employment <sup>4</sup>			
Production workers	108 <sup>a</sup>	-1.3	+0.6
Factory worker earnings <sup>4</sup>			
Average hours worked	101	+1.0	-2.7
Average hourly earnings	134	0.0	+4.7
Average weekly earnings	135	+1.0	+1.9
Construction contracts awarded <sup>5</sup>	247	+8.7	+44.3
Department store sales <sup>2</sup>	110 <sup>a</sup>	+2.8	-4.3
Consumers' price index <sup>4</sup>	115	+0.2	+1.1
Wholesale prices <sup>4</sup>			
All commodities	110	-0.7	-0.8
Farm products	95	-3.0	-9.2
Foods	105	-1.8	-3.5
Other	115	-0.2	+1.3
Farm prices <sup>3</sup>			
Received by farmers	93	-2.3	-11.3
Paid by farmers	111	-0.4	-2.8
Parity ratio	91 <sup>d</sup>	-1.1	-8.1

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for September, 1953; comparisons relate to August, 1953, and September, 1952.  
<sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1953					1952
	Nov. 21	Nov. 14	Nov. 7	Oct. 31	Oct. 24	Nov. 22
Production:						
Bituminous coal (daily avg.)	1,493	1,546	1,470	1,520	1,546	1,817
Electric power by utilities	8,416	8,457	8,398	8,362	8,306	7,884
Motor vehicles (Wards)	104.2	111.6	129.3	138.4	142.7	123.5
Petroleum (daily avg.)	6,165	6,127	6,038	5,937	6,130	6,543
Steel	127.3	129.5	130.5	132.8	133.3	137.7
Freight carloadings	726	727	748	781	804	829
Department store sales	131	133	121	113	113	130
Commodity prices, wholesale:						
All commodities	109.8	109.9	109.9	110.0	110.0	110.7
Other than farm products and foods	114.6	114.5	114.5	114.6	114.6	112.8
22 commodities	87.7	86.9	86.6	86.8	86.2	91.5
Finance:						
Business loans	23,377	23,340	23,315	23,301	23,112	23,043
Failures, industrial and commercial	223	155	207	218	185	167

Source: Survey of Current Business, Weekly Supplements.



# RECENT ECONOMIC CHANGES

## Employment Down

The number of persons employed in November totaled 62 million, declining about 300,000 from October. The decrease was largely accounted for by a seasonal drop in agricultural employment. Nonfarm employment was up during the month, as a decline in manufacturing employment was offset by the seasonal increase in retail trade.

As a result of the drop in agricultural and manufacturing employment, unemployment moved up approximately 300,000 between October and November. This was about equal to the level of unemployment in November a year ago. Census data in thousands of workers are as follows:

	November 1953	October 1953	November 1952
Civilian labor force.....	63,353	63,404	63,646
Employment.....	61,925	62,242	62,228
Agricultural.....	6,651	7,159	6,774
Nonagricultural.....	55,274	55,083	55,454
Unemployment.....	1,428	1,162	1,418

## Manufacturers' Sales Unchanged

Manufacturers' sales, after declining sharply in August and September, leveled off in October at a seasonally adjusted rate of \$24.8 billion. This was the same as sales in October a year ago. Nevertheless, manufacturers' sales

for the first 10 months of 1953 were 11 percent higher than in the corresponding months of 1952.

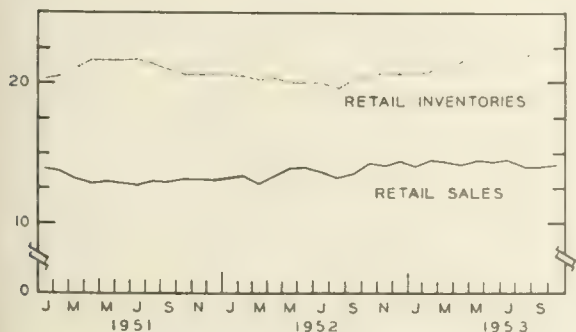
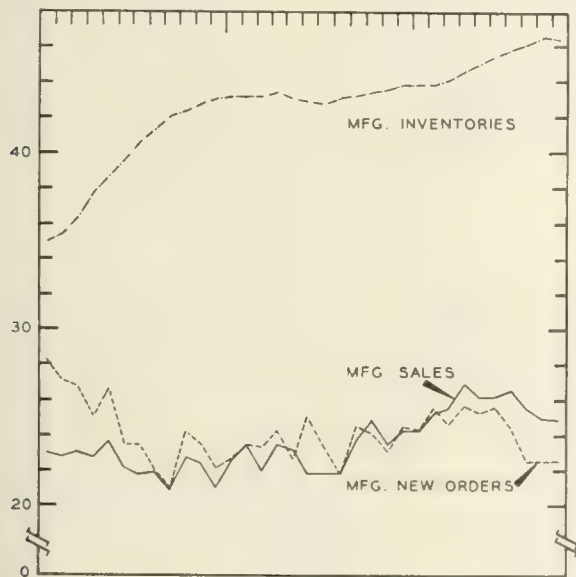
Manufacturing production has fallen somewhat since the first half of 1953 as some industries attempted to trim inventories. But, as shown by the accompanying chart, these efforts were largely thwarted, since declining sales more than offset the moderate cutbacks in output. The rate of inventory accumulation did slow somewhat in August and September, however, and in October the book value of manufacturers' inventories declined slightly.

The bulk of the inventory build-up shown in the chart has been concentrated in durable goods industries. Since the middle of this year orders for defense goods have declined and cancellations have increased. Despite the resulting decrease in durable goods industries' sales and new orders, sales of durable goods for the first 10 months of 1953 were 17 percent above the same period last year.

Retail inventories have also increased considerably this year, and although they declined slightly in October to a seasonally adjusted \$22.1 billion, retail stocks were 7 percent above their level in October of 1952. In part, this increase reflects the larger volume of retail sales this year, as sales for the first 10 months were 5 percent above a year ago.

## BUSINESS SALES, ORDERS, AND INVENTORIES (seasonally adjusted)

BILLIONS OF DOLLARS



Source: Department of Commerce.

## National Output Declines

Gross national product declined by \$3.4 billion to \$369 billion in the third quarter. This is in contrast to the \$10-billion advance that occurred during the second quarter of the year. Changes in the rate of inventory accumulation dominated the movement in both quarters, as inventories were accumulated at an annual rate of \$9 billion in the second quarter, but dropped back to \$4.5 billion in the third.

## GROSS NATIONAL PRODUCT OR EXPENDITURE (seasonally adjusted, billions of dollars at annual rates)

	3rd Qtr. 1953	2nd Qtr. 1953	3rd Qtr. 1952
Gross national product.....	369.0	372.4	345.3
Personal consumption.....	231.0	230.4	217.2
Durable goods.....	30.4	30.7	25.1
Nondurable goods.....	121.3	122.1	118.7
Services.....	79.2	77.6	73.3
Domestic investment.....	56.5	61.0	52.3
New construction.....	24.9	25.3	23.1
Producers' durable equipment..	27.1	26.9	24.9
Change in business inventories..	4.5	8.8	4.2
Nonfarm inventories only....	4.4	8.7	3.6
Foreign investment.....	-2.1	-2.5	-2.0
Government purchases.....	83.6	83.5	77.8

## INCOME AND SAVINGS

National income.....	n.a.	310.7	290.4
Personal income.....	286.8	284.4	271.4
Disposable personal income.....	249.8	247.7	236.6
Personal saving.....	18.8	17.2	19.4

Other components of the gross national product were characterized by relative stability at high levels during the third quarter. Personal consumption edged up by slightly more than a half billion dollars as fractional declines in expenditures for durables and nondurables were offset by a \$1.6 billion rise in expenditures for services.

Construction was down somewhat during the quarter as a further expansion of commercial building and public utility outlays failed to balance declining residential construction. Purchases of durable equipment were maintained at the second quarter level of \$27 billion. In the

government sector, expenditures totaled \$83.5 billion, unchanged from the previous quarter, as a moderate decline in national security outlays was offset by increases in other expenditures at both the Federal and the state and local levels.

## Rubber Consumption

Movements of natural rubber prices and consumption in this country since 1950 involve an intermingled tale of government controls, stockpile buying for defense, and competition with the government-owned and -operated synthetic rubber plants.

In mid-1950 when hostilities broke out in Korea, world demand for natural rubber increased sharply. As a result, the wholesale price of natural rubber at New York climbed from 18.5 cents a pound at the beginning of the year to over 70 cents at the year's end (see chart). United States consumption, which had started to increase in mid-1949, advanced to a postwar peak of 70,000 tons by October of 1950, as defense requirements and the stockpiling program were superimposed on high demand from civilian industries. During 1950 government synthetic plants that had been shut down after World War II were reactivated, and by December of that year consumption of synthetic rubber, then selling at only slightly over a third of the natural price, had surpassed that of natural rubber. With synthetic plants operating near capacity and the government controlling all natural rubber imports, increasing consumption of synthetic rub-

ber replaced declining consumption of natural rubber.

This pattern continued throughout most of last year, though rubber supplies were no longer critical. By the end of the third quarter of 1952, natural rubber prices were down to 30 cents a pound, and after rising slightly in the last quarter of 1952 and the first quarter of 1953 resumed a gradual decline to a post-Korean low of 23.5 cents in August and September. With the price differential between the competing products narrowed, demand for natural rubber picked up and accompanied the first-half rise in sales of synthetic rubber. Third quarter consumption of both products was off from earlier levels, however, as stockpiling needs declined and civilian demand edged off somewhat.

## Foreign Aid in Fiscal 1953

The United States foreign aid program continued in full swing during fiscal year 1953. Between the first of July, 1952, and the end of June, 1953, this country gave or loaned more than \$7 billion to friendly foreign nations, the highest amount for any fiscal year since the end of World War II. After deducting reverse grants and repayments of credits, foreign aid totaled \$6.3 billion. This compares with net foreign aid of about \$4.5 billion in each of the previous three fiscal years.

The trend that began in 1950, after the outbreak of hostilities in Korea, of less economic and more military assistance to foreign countries continued in fiscal year 1953. Military aid accounted for over two-thirds of fiscal 1953's aid total. In fiscal 1950, the last year before the Korean invasion, military aid amounted to only 4 percent of total foreign aid.

The decline in economic aid reflects in part the generally improved economic position of many foreign nations. Economic assistance to Western Europe in 1953, which has regularly received the bulk of such aid, totaled almost 20 percent less than in the previous fiscal year.

## Economic Statesmanship

(Continued from page 2)

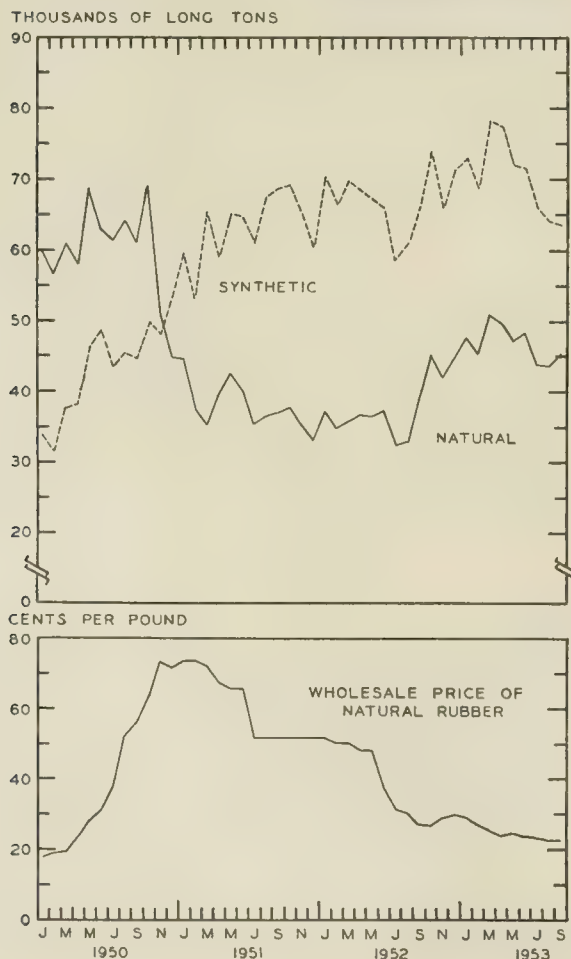
Put to work in governing bodies, this approach would effectively minimize, if not resolve, many of our problems of economic policy. Among the things it would dictate are a ban on devices to keep prices artificially high; removal of restraints on competition or new investment; and in the event of a recession, resort to measures that provide incomes for the unemployed in preference to tax reductions for those whose incomes have been maintained.

This is the way to keep our economy strong and efficient enough to meet the challenge of dictatorial forms of social organization. Unfortunately, too many of our congressmen consider themselves the representatives not of all the people, but of some limited group that has helped put them into office. With such an attitude, it is easy for them to become so preoccupied in schemes for party, group, or personal advantage that they cannot see, or do not care to recognize, the broader needs of the community. As their schemes succeed, they sacrifice the basic national and international goals to which they pay lip service.

That there is as critical a need for statesmanship in economic as in the other aspects of our social and political affairs can hardly be denied. Is it, then, too far-fetched to believe—inasmuch as consumers are far more numerous than any other group—that adherence to such an approach might pay off on election day?

VLB

### RUBBER PRICES AND CONSUMPTION



Source: Department of Commerce.



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### The Labor Force

Approximately 70.5 million persons 14 years old and older were employed at some time during 1952. Of these, 57 percent worked full time (35 hours or more a week) for at least 50 weeks and another 28 percent worked full time during part of the year; 14 percent held part-time jobs. The general pattern of the population's work experience in 1952 was about the same as in 1951, as both years offered almost unprecedented employment opportunities.

An increasing number of married women are combining housework with gainful employment, according to recent estimates by the Bureau of the Census. By April, 1953, the number of married women in the labor force had risen to 10.7 million. This is an all-time high, representing 17 percent of the civilian labor force. Between 1947 and 1951 an average of 650,000 married women were added to the labor force each year, with an especially large increase (almost one million) in the first year of the Korean conflict due to defense expansion and a loss of civilian manpower. Since then the trend has leveled off, with little change in 1952 and only a small gain in 1953.

### Telephone Aid

A new device which amplifies telephone conversations so that a person can be anywhere in a room while listening and speaking is being manufactured by the National Company, Malden, Massachusetts. Originally developed in England, the instrument amplifies sounds coming out of the receiver to voice level and also catches voice tones from several feet away and directs them into the mouthpiece for the person on the other end to hear.

Called Fonadek, the new product, which works on batteries and is not connected to the telephone, is about

the size of a shoe box. After a call has been dialed, the receiver is hooked to the Fonadek so that the earpiece is over a hole near the top of the box and the mouthpiece is over another opening underneath. A volume control button is on the side of the amplifier. According to the distributor (Special Devices, Inc., Boston, Massachusetts), the new instrument, which is priced at \$59.50, should have many uses in addition to being ideal for business conferences.

### Motor Vehicle Production

Passenger car output in 1953 will be the second largest in history — exceeded only by 1950 production. According to Ward's Automotive Reports, auto makers will turn out an estimated 6.2 million cars during this year, 43 percent more than in 1952 but 8 percent short of the 1950 high (see chart). Although some industry sources had forecast record output in 1953, "new and used car stocks soon proved unwieldy," and schedules were slashed by many manufacturers in the latter part of the year.

Cumulative factory sales of motor trucks and buses during the first 11 months of 1953 totaled 1.1 million, slightly above the same period a year ago but off 17 percent and 9 percent, respectively, from 1951 and 1950.

### Overheating Danger Spotted

Protection of industrial equipment has been simplified and made more flexible, according to claims of Thomas A. Edison, Incorporated (West Orange, New Jersey), for their new alarm system. Usable with almost all kinds of hard-running machinery, the system gives an alarm by means of a lighted bulb and an audible sound if the equipment gets too hot. Electric light bulbs are connected to the bearings of the motor to be guarded and to a central monitor. If the motor starts heating, the lights go on and the apparatus gives an audible alarm. The system will not stop or slow the motor since it is designed to detect heat before the situation gets too critical, but it does let the attendant take a temperature reading on the trouble point directly from the monitor and adjust whatever needs fixing.

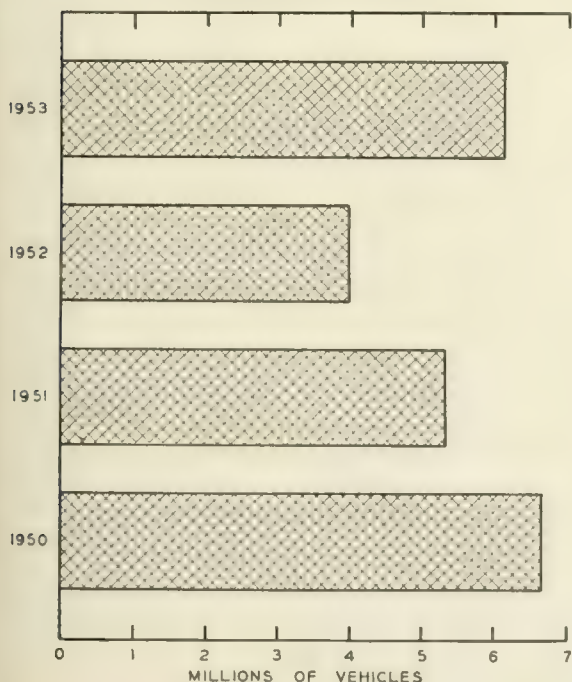
A big advantage of the system, according to the producer, is that the monitor does not have to be in a special control room but can be installed right next to the protected equipment. Also, whereas some alarm systems need a maze of wires, this one can operate with only two. Edison says the control setup will be inexpensive, but the exact price has not yet been fixed.

### Household Formation

The number of households in the United States has been increasing at an average annual rate of about 950,000 since 1950, according to the Bureau of the Census. Immediately following World War II, during the period 1947 to 1950, the increase was much larger, approximately 1.5 million; for the war years, 1940 to 1947, the annual gain was much smaller, about 600,000. The number of households in April, 1953, was estimated at 46.8 million, each with an average of 3.28 persons.

Slightly more than 4 percent of all married couples were sharing the living quarters of other persons or were living in hotels, rooming houses, or other quasi households in April, 1953. This was about the same number as in 1952.

AUTOMOBILE SALES



Source: Automobile Manufacturers Association.

# ACTS OF THE ILLINOIS LEGISLATURE IN 1953

WILLIAM O. MORRIS, Assistant Professor of Business Law

The Sixty-Eighth General Assembly of the State of Illinois, which adjourned June 30, 1953, was called upon to consider more than fifteen hundred bills, amendments, and resolutions. Almost a thousand of these were passed by the legislature. Almost a fourth of those passed were vetoed by the governor and never became law. Thus, some seven hundred and fifty bills were approved by the legislature and the governor.

Many of the bills which were duly enacted were appropriation measures or of limited importance. However, several changes and additions were made in our laws which are of more than ordinary interest to the business public. The following are not necessarily the most important accomplishments of the legislature, but are among the changes of most interest to persons in the everyday business world.

## Safety on Highways

Efforts to change legislation relating to travel on Illinois highways have been a growing issue in recent years as accident rates increased. For many years highways could not be built, maintained, and modernized rapidly enough for the adequate safety of present-day users. Automobile registrations have increased and car speeds are constantly being stepped up, but of necessity they must use highways designed and built for fewer vehicles traveling at slower speeds.

With a view to expanding the highway system more rapidly, Illinois followed the trend in other states by establishing a Toll Road Commission to investigate the need for and to build toll roads in this State. Thus in the future some of our most heavily traveled highways will likely be toll roads, which will allocate the burden of cost to those actually using the roads.

It being impractical to quickly rebuild the highway system to handle modern-day traffic, the Illinois legislature has constantly enacted laws providing for added safety measures for the users of our highways. The last session enacted into law the requirement that all new passenger vehicles sold in Illinois after July 1, 1954, must be equipped with a signal device for indicating the intention of the driver to turn right or left, and all mechanical devices of this kind must be self-illuminating when in use.

For the protection of pedestrians the Illinois law was amended to require all vehicles emerging from an alley, driveway, or building to stop immediately prior to driving onto a sidewalk and to yield the right of way to any pedestrian whenever necessary to avoid a collision.

## Rights of an Adopted Child

Many persons have been greatly confused with regard to the rights of an adopted child. As the right of adoption was unknown in early law, the adopted child has only such rights as are given him by statute, and such rights are strictly construed against the adopted child.

The right of an adopted child to inherit from his natural parents is not restricted by adoption, except possibly by that provision of Section 14 of the Probate Act of Illinois, which requires the child adopted by a blood relative to take by adoption and not by blood.

From court decisions interpreting the Illinois Statutes, an adopted child would inherit from his natural parents and from his adopted parents, but not from the collateral kindred of the adopting parents. Thus, in the Illinois case

of *Smith v. Thoms*, regarding the right to inherit, the Illinois Supreme Court said, "The adoption of a child does not make the adopted child the grandchild of the parents of the adopting parent."

To make the law more equitable for adopted children and more nearly in accordance with the beliefs of the public, certain changes in regard to the rights of an adopted child to inherit were suggested and adopted by the legislature. Our probate act was amended to provide that an adopted child might hereafter inherit from the collateral kindred of his adoptive parents. Under the new law it is conceivable that an adopted child who survives both his natural and adopting parents would inherit, in the absence of a will, from four sets of grandparents, that is, his natural grandparents and the parents of his adopting parents.

Another change clears up past doubt as to whether an adopted child might recover damages from one who caused the wrongful death of the adopting parents. The statute was amended to include an adopted child within the meaning of next of kin, allowing him to recover damages for the wrongful death of his parents by adoption.

## Right of Wife to Sue Husband

Past interpretation of the law made it impossible for a wife to sue her husband for any wrong of the husband to his wife, and this has now been specifically enacted in a new amendment. At common law, until the nineteenth century, a married woman was regarded as completely under the coverture of her husband so that any suit in a court of law required the joining of her husband with her as plaintiff or defendant.

An act approved March 30, 1874, made drastic changes in the rights of a married woman. The legislature by their acts permitted a married woman to sue and be sued without the joining of her husband, to contract in her own name, to hold title in her own right to real and personal property. In spite of the language of the statute permitting a married woman to sue in her own name, it was felt that a married woman could not sue her husband. In some jurisdictions a married woman has been permitted to sue her husband for damage to her property but not to her person. In the spring of 1953 the Illinois Supreme Court in the case of *Brandt v. Keller* (413 Ill. 508) allowed recovery by the wife against her husband for personal injuries to her person as a result of an automobile accident caused by her husband's driving.

Those persons engaged in the practice of law were divided in their thinking as to the wisdom of this far-reaching decision. The insurance companies had reason to worry as a result of this decision, as it might be possible through collusion between husband and wife for the wife to sue her husband for damages to her person, and for the husband to make only a token defense, knowing all the time that the insurance company with whom he was insured would have to pay any judgment which the wife might receive.

Within three months after the decision in the *Brandt* case the Illinois legislature amended the statute to read "A married woman may, in all cases, sue and be sued without joining her husband with her to the same extent as if she were unmarried; provided that neither husband or wife may sue the other for a tort to the person committed during coverture."



The wisdom of the new amendment is in doubt in that it allows no legal remedy to the wife to enable her to recover damages from her husband for assault, assault and battery, slander or libel, injuries to the wife as a result of her husband's negligence, or other torts to her person, committed in the marital state, even though the parties may be living separate and apart. The amended statute does not, however, remove the husband's criminal liability for such wrongs or affect her grounds for a divorce action.

## Real Estate Law

Hard feelings, misunderstandings, and many times actual hardships have occurred because of the lack of knowledge in regard to the rights in real estate of a surviving spouse. Often parties who own at the time of marriage or subsequently acquire property in their own names are mistaken as to the law affecting the disposition of the property in the event of death.

It is a general misconception of the law in most states that the surviving spouse always inherits the property of the other spouse absolutely in the event of death. This result is obtained only when the deceased spouse dies testate, that is, with a will, naming his spouse beneficiary of the estate; holds the property in joint tenancy, that is, title going to the survivor upon the death of one joint tenant; or when there are no descendants, parents, brothers, sisters, or descendants of a brother or sister.

Occasionally the spouse owning the real estate would execute a deed granting to his or her spouse his real estate in joint tenancy with the grantor. From the earliest date such a grant would not create a joint tenancy with the right of survivorship in the survivor, but would only give the grantee a one-half interest in such property. To create a joint tenancy with the right of survivorship, both the grantor and grantee had to obtain title through the same instrument and at the same time. Since the grantor already possessed title at the time of the execution of the deed, title was not acquired at the same time or by the same instrument and no joint tenancy was created. To accomplish the desired result the owner of the real estate would have to deed the property to some third person, and have the third person deed it back to the original grantor and the person with whom he wanted to create the joint tenancy.

To facilitate the creation of a joint tenancy and to reduce the costs in such cases, Senate Bill 126 was enacted, effective July 1, 1953, permitting the grantor in a deed creating joint tenancy to also be one of the grantees.

## Self-Incrimination and Perjury

The Fifth Amendment to the United States Constitution, stating that no person "shall be compelled in any criminal case to be a witness against himself," is a limitation upon the Federal government only, and hence a State Court does not violate the Federal Constitution by refusing to extend a similar privilege to those within its jurisdiction.

While the Fifth Amendment to the United States Constitution is a limitation upon Federal courts and agencies, the same privilege is also assured by Section 10 of Article 2 of the Illinois Constitution, which provides "No person shall be compelled in any criminal case to give evidence against himself . . ." and thus gives the same protection in our State system.

In the past it has been difficult in many cases for the

State to obtain a conviction in criminal cases because many witnesses, when called upon to answer a question, would reply with the familiar "I refuse to answer on the grounds my answer might tend to incriminate me." To limit the effectiveness of this answer the Illinois legislature took an entirely new approach to this problem when they enacted into the criminal code the following: "Whenever, in any investigation before a grand jury or trial in a court of record of any person charged with a criminal offense . . ., any person called as a witness in behalf of the prosecution is a material witness and . . . his testimony . . . would tend to incriminate him, . . . the court may cause an order to be entered of record that such witness be released from all liability to be prosecuted or punished on account of any transaction . . . concerning which he may be required to testify . . .; and such order shall forever after be a bar to any indictment, information or prosecution against the witness for any felony or misdemeanor shown in whole or part by such testimony or evidence, . . . except for perjury committed in the giving of such testimony; provided, however, that the court shall deny a motion of a State's Attorney made under this section and shall not enter an order releasing such witness from such liability if it shall reasonably appear to the court that such testimony . . . would subject such witness to an indictment, information or prosecution (except for perjury committed in the giving of such testimony) under the laws of another State or of the United States;"

To facilitate the conviction of a person for perjury, a person can now be found guilty of perjury because of having made inconsistent statements under oath. It is not now necessary for the State to prove which of the inconsistent statements is true and which is false. However, if a witness at a trial should admit the untruthfulness of a prior statement at the trial and tell the truth, he purges himself and cannot be convicted of the perjury.

## Chattel Mortgages

A chattel mortgage is a mortgage upon personal property used to give added security to one's creditors in addition to the debtor's promise. The mortgagor is permitted to retain possession, and generally the use, of the mortgaged property as though it were unencumbered. Because the mortgagor has possession of the property, it is possible for him to lead others to believe that he holds the property free of liens and to obtain credit on the basis of his ownership or even sell the property. To protect third parties and the mortgagee from wrongful dealings by the mortgagor, the law requires the mortgagee to record his mortgage in order to give third parties notice of his claim of interest in the property.

Formerly the mortgage on personal property had to be recorded within 10 days of its execution in the recorder's office in the county wherein the mortgagor resided. Under the new provision, Chapter 95, Section 4, the time allowed for recording has been extended to 15 days from the date of execution. In addition to the extension of time allowed for the recording, it is now necessary to record the mortgage not only at the place of residence of the mortgagor, if he is a resident of this State, but also to file a certified copy of the mortgage in the county wherein the mortgaged property is actually situated at the time of the execution of the mortgage. But in no event shall a chattel mortgage be valid for more than five years from the date of execution.

# LOCAL ILLINOIS DEVELOPMENTS

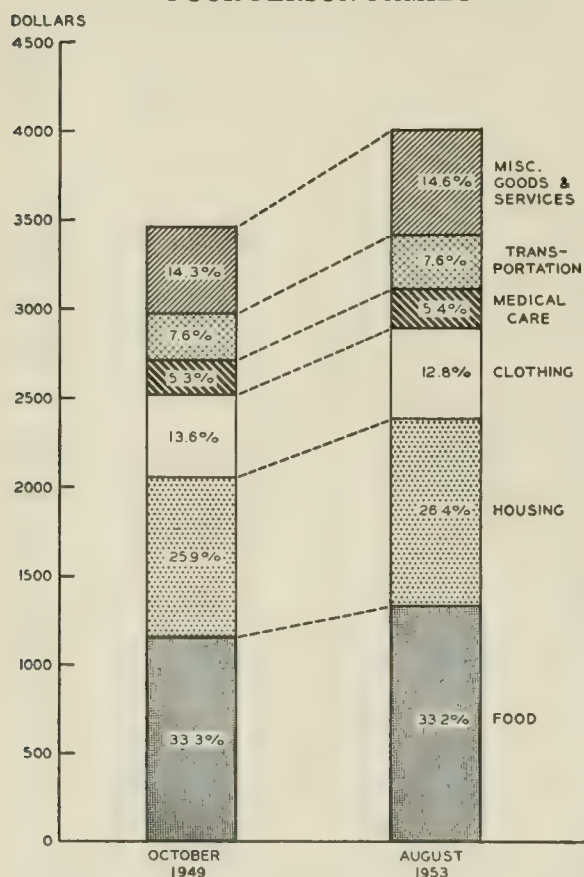
Most Illinois business indexes registered substantial gains in October. Increases of 10 percent or more were recorded from the preceding month for coal production, life insurance sales, department store sales, and postal receipts. October indexes of manufacturing employment and business loans declined slightly from September, but were up 3 percent and 8 percent, respectively, from last year. Indexes which showed substantial increases over 1952 include electric power production, coal production, and life insurance sales.

The consumer price index in Chicago edged upward again in October to 117.1 percent of the 1947-49 level. This was an advance of 2.9 percent from the March low. The all-commodity index of farm prices received on October 15 was 6 percent below the previous month and 11 percent under mid-October, 1952. Prices paid were down only fractionally, however, and the parity ratio in Illinois fell to 92, one point above that for the nation.

## Illinois Maintains High Employment Level

Nonagricultural employment in Illinois increased to 3.4 million persons in October, a new high for the year. Substantial gains in nonmanufacturing employment more than offset layoffs by manufacturing establishments during recent months. Seasonal factors were largely responsible for increasing employment in trade, government, construction, mining, and transportation.

**BUDGET FOR CHICAGO WORKERS  
FOUR-PERSON FAMILY**



Sources: U. S. Bureau of Labor Statistics and Illinois Department of Labor.

In spite of a downturn since March, manufacturing employment in the State has remained well above the year-ago level and has been an important factor in raising total nonfarm employment during 1953. The number of people working in durable goods industries increased 4 percent over the October, 1952, level, and employment in nondurable goods was up 1 percent from a year ago.

Contract cancellations and fewer orders reduced employment from September to October in farm machinery, primary metals, fabricated metal products, and electrical machinery. Declines registered from September to October in the soft-goods and food-processing industries were no more than seasonal.

## Farm Income

Illinois cash receipts from farm marketings did not decline as much as the nation's during September. Farm income in Illinois during that month was 2 percent less than in September, 1952, as compared with an 8 percent decline for the United States as a whole.

A sharp drop in cattle prices and smaller declines in prices of milk and butterfat were largely responsible for lower cash receipts from livestock and livestock products during the year. September crop receipts were up almost 11 percent from the same month last year whereas income from livestock and products in Illinois was off 8 percent.

## Petroleum Production

Almost 60.1 million barrels of oil were produced in Illinois during 1952, or about 3 percent of total United States output, according to the State Geological Survey. Although production was slightly less than in 1951, Illinois remained in seventh place in the nation for the second year. Crude oil produced in the State during 1952 was valued at approximately \$166.4 million, or about \$2.77 per barrel. Including natural gasoline and liquefied petroleum gases, the total value of liquid products from Illinois oil pools amounted to \$174.0 million.

## Family Budget

The total amount of money, excluding income taxes, needed annually by a four-person family to maintain an adequate standard of living in Chicago has been estimated at \$4,010 as of August, 1953, by the Illinois Department of Labor (see chart). Described as providing a "modest but adequate" level of living for a family of four persons — an employed father, a housewife not gainfully employed, and two children under 15 years of age — the budget represents an advance of \$552 as compared with a similar one prepared in October, 1949. From that date to August, 1953, the amount needed for housing and miscellaneous goods and services rose almost 19 percent and that for food, medical care, and transportation was up 16 percent. The smallest increase was for clothing, up 10 percent from 1949. Not shown on the chart are income taxes, which registered the greatest advance of any group — up from \$139 in 1949 to \$340 in 1953.

Food accounted for the largest single item in the budget (\$1,330), but the cost of housing — including rent, heat, utilities, home furnishings, and other household expenditures — was almost as much. The transportation charge, \$305, represents the cost for both automobile owners and others in the proportion in which cars are owned by families on this modest level of living.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

October, 1953

	Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b>						
Percentage Change from...	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952
	\$27,990 <sup>a</sup> +17.3 +15.5	912,643 <sup>a</sup> -2.1 +3.4	\$527,399 <sup>a</sup> +2.7 +2.1	+12 -3	\$12,845 <sup>a</sup> +2.1 -1.1	\$15,172 <sup>a</sup> +10.8 +5.8
<b>NORTHERN ILLINOIS</b>						
<b>Chicago</b>	\$21,163 +25.8 +18.5	707,749 -1.7 +3.3	\$382,416 +5.5 +0.1	+12 -2	\$11,670 +1.6 -1.2	\$13,449 +10.7 +6.4
Percentage Change from...	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952
<b>Aurora</b>	\$ 366 +101.1 -49.5	n.a.	\$ 7,312 +1.4 +4.0	+2 -9	\$ 50 +4.9 +14.3	\$ 112 +14.6 +9.6
Percentage Change from...	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952
<b>Elgin</b>	\$ 565 +24.4 +78.2	n.a.	\$ 5,449 -1.8 +0.0	n.a.	\$ 31 +1.5 +5.9	\$ 112 +22.1 +3.3
Percentage Change from...	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952
<b>Joliet</b>	\$ 406 +34.4 +306.0	n.a.	\$12,394 +9.2 +23.3	+4 +6	\$ 64 +2.9 +5.9	\$ 84 +8.9 +10.2
Percentage Change from...	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952
<b>Kankakee</b>	\$ 100 -54.5 +156.4	n.a.	\$ 5,490 +2.7 +10.0	n.a.	n.a.	\$ 37 +18.8 +5.2
Percentage Change from...	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952
<b>Rock Island-Moline</b>	\$1,005 +6.5 +23.0	17,377 -4.4 +2.9	\$ 9,659 +3.2 +7.1	n.a.	\$ 81 <sup>b</sup> +4.2 -0.9	\$ 158 -0.4 -0.2
Percentage Change from...	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952
<b>Rockford</b>	\$ 848 -7.7 -21.9	30,643 -2.0 +7.4	\$16,481 -12.8 +9.4	+4 +2	\$ 136 +4.3 +5.4	\$ 177 +18.8 +2.3
Percentage Change from...	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952
<b>CENTRAL ILLINOIS</b>						
<b>Bloomington</b>	\$ 274 +39.1 -15.7	6,756 +0.5 +6.9	\$ 6,815 +0.5 +30.6	n.a.	\$ 59 +1.0 +4.3	\$ 88 -7.2 -9.9
Percentage Change from...	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952
<b>Champaign-Urbana</b>	\$ 197 -39.2 -28.9	8,351 +4.4 +10.8	\$ 7,327 +11.4 -0.4	n.a.	\$ 62 +15.9 -8.1	\$ 94 +23.7 -4.3
Percentage Change from...	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952
<b>Danville</b>	\$ 160 +119.2 +44.1	8,454 -2.4 +10.2	\$ 5,971 -1.1 +4.4	+10 -6	\$ 49 +22.6 +9.9	\$ 64 +29.0 +9.9
Percentage Change from...	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952
<b>Decatur</b>	\$1,082 +157.6 +260.7	22,100 -0.7 +4.7	\$10,208 -38.1 +10.8	+11 <sup>c</sup> -3	\$ 120 +18.7 -19.4	\$ 115 +17.8 +12.1
Percentage Change from...	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952
<b>Galesburg</b>	\$ 150 -79.9 -29.9	6,248 -7.8 +9.2	\$ 4,212 +4.3 +8.6	n.a.	n.a.	\$ 36 +5.5 +3.3
Percentage Change from...	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952
<b>Peoria</b>	\$ 577 -51.8 -49.5	42,880 <sup>c</sup> -6.0 -4.3	\$17,294 +1.5 +8.1	+0 <sup>c</sup> -5	\$ 214 +8.5 +2.0	\$ 253 +22.2 +17.6
Percentage Change from...	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952
<b>Quincy</b>	\$ 187 +18.4 -44.8	7,025 -4.0 +5.7	\$ 4,737 +2.2 +1.2	+24 +2	\$ 38 +7.5 -3.5	\$ 65 +12.0 -18.6
Percentage Change from...	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952
<b>Springfield</b>	\$ 399 -31.0 +33.0	25,270 <sup>c</sup> -3.3 +0.3	\$12,682 +1.8 -2.9	n.a.	\$ 100 +1.6 +1.8	\$ 192 -5.2 -16.1
Percentage Change from...	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952
<b>SOUTHERN ILLINOIS</b>						
<b>East St. Louis</b>	\$ 72 -13.3 -39.5	12,921 -7.5 +10.4	\$ 9,439 -1.5 +5.3	n.a.	\$ 135 +2.2 -6.7	\$ 68 +20.1 +2.6
Percentage Change from...	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952
<b>Alton</b>	\$ 140 -5.4 +57.3	11,476 -2.1 +2.8	\$ 5,154 +1.0 +9.6	n.a.	\$ 37 +4.9 +10.6	\$ 28 +4.5 -16.5
Percentage Change from...	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952
<b>Belleville</b>	\$ 299 +228.6 +251.8	5,393 -1.2 +18.5	\$ 4,359 -3.2 +3.1	n.a.	n.a.	\$ 40 +14.2 +0.3
Percentage Change from...	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952	{ Sept., 1953... Oct., 1952

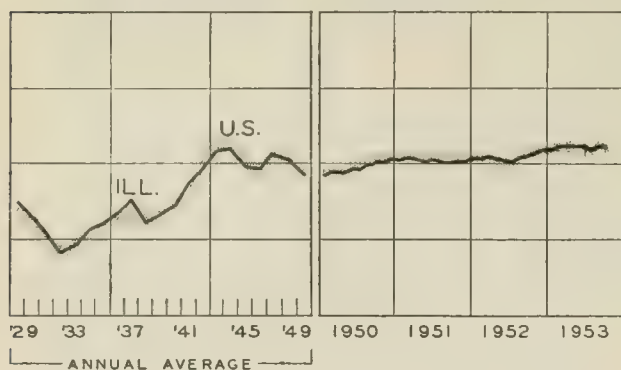
<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.

Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for September, 1953, the most recent available. Comparisons relate to August, 1953, and September, 1952. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

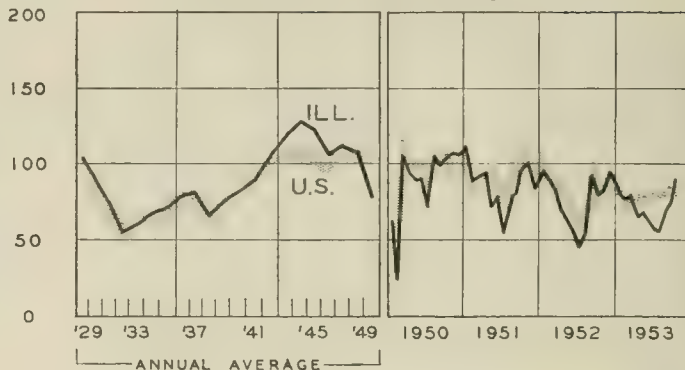
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

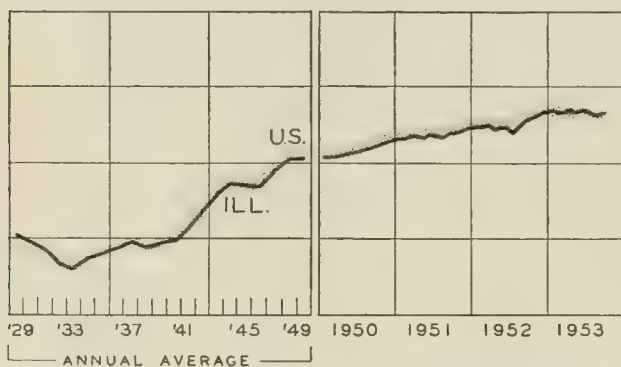
EMPLOYMENT - MANUFACTURING



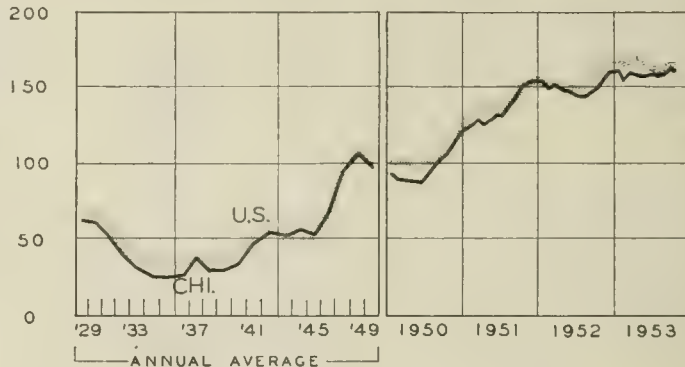
COAL PRODUCTION



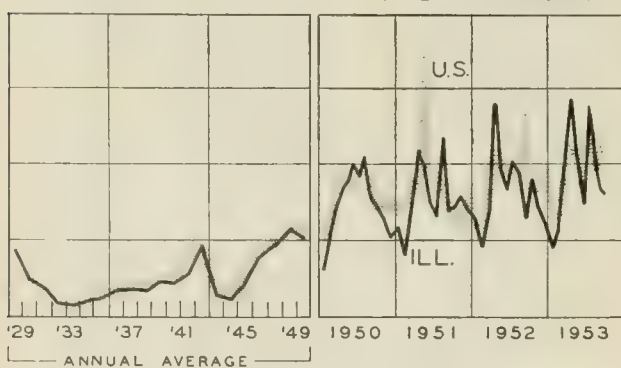
AVG. WKLY. EARNINGS - MANUFACTURING



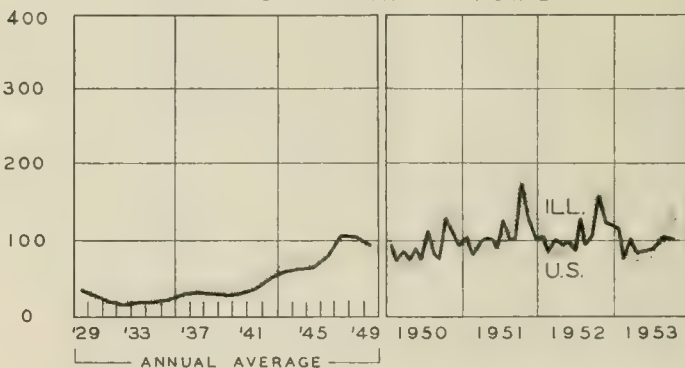
BUSINESS LOANS



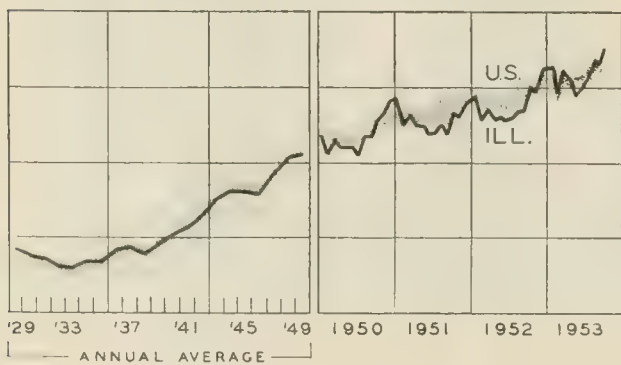
CONSTRUCTION CONTRACTS AWARDED



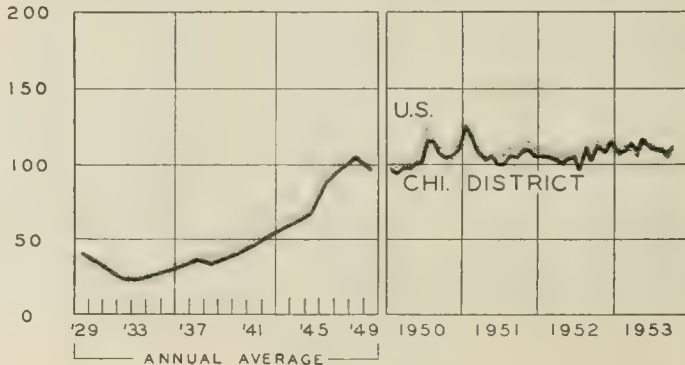
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



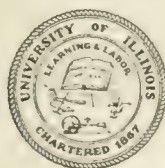
DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .  
BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME XI

JANUARY, 1954

NUMBER 1

## HIGHLIGHTS OF BUSINESS IN DECEMBER

Industrial production and construction activity declined in the closing month of 1953. However, for department stores and other retailers generally, it was a banner month. After lagging behind year-ago levels during most of the fall shopping season, department store sales picked up sharply in the week before Christmas and sales for the month, aided by the presence of an extra shopping day, slightly exceeded the all-time record established the previous December.

For the year as a whole, department store sales rose 2 percent above the 1952 high of \$11.6 billion. Total retail sales are also believed to have established a new peak in 1953, exceeding the record figure of \$164 billion in 1952 by \$7 billion.

### Unemployment Rises

Unemployment rose to 1.9 million in December, an increase of 400,000 above the preceding month. Seasonal cutbacks in outdoor activity were partly responsible for the rise, with factory layoffs also contributing. This was the highest unemployment figure recorded in 1953, though still far below the level of unemployment in many other prosperity years.

Farm employment was also affected by seasonal slackening in activity, with the result that the number of farm workers in December declined to 5.4 million, a drop of more than 20 percent. Nonfarm employment, which usually rises in December, remained steady this time at the November level of 55.3 million. Declines in construction and manufacturing activity apparently offset the expansion of retail trade employment this year.

### Farm Prices Up

After declining for seven months, farm prices turned upward in December. Average prices received by farmers rose 1.2 percent during the month ended December 15, mainly because of sharp increases in hog prices. With prices paid by farmers remaining fairly steady during this period, the parity ratio rose 1 point to 91 percent of the 1910-14 base period. This is 5 points lower than last January.

Retail prices were also reported at the year's end to have reversed a trend of some duration. The Bureau of Labor Statistics consumers' price index turned downward in November for the first time in 10 months as food prices

dropped 1.4 percent. At 115.0 percent of its 1947-49 average, the index stood slightly above the figure for January, 1953.

### Projected Decline in Federal Expenditures

If President Eisenhower is able to get his budget program through Congress intact, Federal spending in the fiscal year beginning July 1, 1954, should decline by \$5 billion from expenditures in the current fiscal year to \$67 billion. Despite this reduction, government receipts are unlikely to cover expenses next year, and accordingly an increase in the \$275-billion statutory limit on the Federal debt is being asked.

Other proposals of business significance made by the President are for a system of flexible farm price supports, increased military aid but reduced economic aid to friendly nations, increased postal rates, extension of social security coverage, and extension of the corporate tax rate of 52 percent and of various excise taxes scheduled to expire on April 1.

### 1953 in a Nutshell

Though scattered areas of activity experienced declines in 1953, the year nevertheless witnessed the production of the largest volume of goods and services so far in the nation's history. The value of all goods and services produced—the gross national product—is estimated to have exceeded the high established in the preceding year by about 5 percent.

Other records were established in employment, which averaged nearly 62 million during the year; in unemployment, at a postwar low of 1.5 million; in new plant and equipment expenditures, \$28 billion; in construction activity, despite a decline in homebuilding; in selected industries, such as steel, electric power, paper, aluminum, plastics, and rubber; in foreign trade, mainly because of record imports and military aid; and, as noted earlier, in retail trade.

Corporate earnings were the third highest on record, well above the 1952 figure. Farm income declined about 7 percent as prices fell, operating costs rose, and drought seared parts of the nation. The government ran a deficit once more and reverted to an easy money policy about the middle of the year when conditions on the money market appeared tight. Both of these policies appeared likely to continue in 1954.

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## The Business Outlook

A recession is under way. It promises, however, to be very mild. In all probability, the decline will be less rapid than the advance from 1952, so that 1954 will be the second best year in history.

That is a short summary of what is now the most widely accepted forecast. There are a few who think 1954 might actually surpass 1953; but they have little to offer in the way of support for their optimism. In view of the downturn, the boom is clearly unable to surge ahead on its own momentum. Only a new outbreak of hostilities, leading to an expanded military program, would be likely to push the economy up further.

There are also a few gloomy pessimists who look for the bottom to drop out. But they seem to assess too lightly the important elements of strength in the boom and the stabilizing factors that will come into play. As the decline gets under way, there are practically no signs of distress. The economy has continued to provide jobs for most of those who want work, and unemployment in December remained under the 2 million that has commonly been regarded as a bare minimum.

### Another Inventory Recession

Underlying the current setback is the fact that inventories were being accumulated too rapidly — in the second quarter of 1953 at an annual rate of almost \$9 billion. The cutting of production schedules in recent months has ended the accumulation and dominated the decline. Inventory holdings now appear somewhat higher than the current volume of business calls for; and although reductions are already being effected in many lines, the downward movement will probably have to proceed further before the adjustment is completed.

It looks, in short, like another 1949, with the situation on the whole somewhat less favorable. Inventories are considerably higher than they were then. Backlogs of demand for durable goods and construction are not so large, if they still exist at all. Hence the 1954 decline will probably exceed that of 1949. As a rule, such corrections are swift. So the full force of liquidation will probably be felt by the middle of 1954.

An inventory reversal inevitably has repercussions upon other factors. Purchases of automobiles, machinery, and other durable goods are being cut back by both consumers and business. The decline in consumer durables will probably account for the bulk of a limited reduction

in consumer spending in 1954. The decline in business outlays for new productive equipment will probably, because of the slower response in this activity, continue through most of 1954, to a point at least 10 percent under the high reached in the third quarter of 1953. An alternative way of looking at these cutbacks in durable goods is that they are part of the inventory adjustment, since stocks of goods in use may have the same effect in depressing production as stocks yet unsold.

### Basic Points of Strength

Despite the magnitude of these decreases, there are reasons for believing that the over-all decline will be moderate. All the other important items in the gross national product remain basically strong.

At the moment, statements from Washington suggest large cuts in expenditures with a view to balancing the budget. The main reductions actually projected represent a compromise on the size of the military programs. These reductions in military spending derive from the recent easing in international tension rather than the desire to balance the budget. The fact is, however, that the international situation remains essentially unchanged, so that the future course of these programs is unpredictable. Perhaps the situation will remain quiet enough so that a cut of \$5 billion can be effected, but early estimates to this effect could easily prove premature.

Talk of economy and a balanced budget always seems to dominate the opening of a new session of Congress, but it seldom carries through to the end. As the decline in business progresses, there may well be a shift in policy that will leave the current "economy" movement as dead as the "hard money" policy of early 1953.

It will no doubt be difficult to get agreement on vigorous anti-recession measures, but nonmilitary expenditures are likely to increase, if only in a limited way. Such increases, in conjunction with continued advances in state and local government programs, will largely, if not completely, offset the decline in military expenditures. Taking into account outlays for unemployment compensation and other transfer payments, there will almost certainly be an increase rather than a decrease in total government spending.

Construction activity remained strong through 1953. Nonresidential construction ended the year very close to the peak. Residential construction tilted upward again with the easing of the market for mortgage money. Both types are in the boom phases of long cycles, and the declines that can be expected in such cycles during a year of prosperity are indeed moderate. Both will probably decline a little in 1954. The important point in the context of an inventory recession, however, is not a small decline, but the relative stability of this important activity.

Net foreign investment has fallen to the point where it will tend to cushion the economy. It has the effect of countering an inventory decline because our imports are sharply curtailed in order to bring stocks of goods down. Exports will probably decline also, but at a less rapid pace, because foreign gold and dollar reserves have been built up and will be used in part to maintain foreign buying as our imports decline.

Consumer buying has thus far displayed extraordinary strength. Despite reductions in income, expenditures held close to the peak in the final quarter of 1953. With the new year, disposable personal income gained a significant increment from tax reductions. For most taxpayers, the reductions will amount to about 10 percent. There will be

(Continued on page 6)



## RESTAURANTS

The post-World War II period has been one of considerable strain on the restaurant industry. During the war years, rationing, long working hours, and the lack of durable goods upon which to spend their money drove the consuming public into restaurants in unprecedented numbers. Sales jumped from \$3.5 billion in 1939 to \$12 billion in 1948, the postwar peak. As incomes leveled off and other consumer goods came back on the market, the restaurant industry began to feel the squeeze between falling sales and increasing costs. Other factors, such as television, larger families, and the increased ease with which meals can be prepared in the home—because of the growing popularity of mixers, pressure cookers, frozen foods, semi-prepared foods such as concentrated juices and “brown ‘n serve” rolls, and dishwashing machines—have added to the downward pressure on restaurant sales. In order to attract new customers and keep costs as low as possible, three types of restaurant service have received a great deal of attention from restaurant owners. These are take-home service, the diner, and the drive-in restaurant.

### Take-home and Drive-in Service

Take-home service is not a new idea. The delicatessen has long specialized in prepared foods ready to serve, and many restaurants have for years provided this type of service. Its recent growth in popularity among restaurant owners is due to the fact that it raises volume without requiring the expenditure of any money on physical expansion and permits full use of present equipment. From the consumer's point of view, take-home service is convenient for working wives or those who wish to serve dishes too difficult for them to prepare at home. Still more convenient is the delivery service provided by many restaurants which makes it unnecessary for the customer to leave his armchair to order his dinner. Many restaurant owners report that take-home service attracts a different group of customers than does their regular service and does not, therefore, interfere with their usual trade.

Drive-ins, which enable the customer to eat in his car, have become popular for many of the same reasons that take-home service has. For the owner there is the advantage of low costs of operation, and many patrons prefer the informality of the drive-in restaurant which makes it unnecessary for them to “dress up” before going out to eat. Although most drive-ins also provide conventional dining facilities and many offer full dinners, the inconveniences of handling dishes and cups in an automobile has limited outdoor service largely to simple items such as sandwiches, French fries, baked beans, and coffee.

### Diners Offer Efficient Operation

The diner originated in 1892 when Charles Palmer started using horse-drawn wagons to carry hot frankfurters and beans to workmen in Worcester, Massachusetts, factories. For many years, the diner was simply a somewhat unsanitary establishment offering a simple

menu. Today, diners have an appeal for families and even clubs. Some diners have as elaborate menus as any other eating place, sometimes running as long as six pages and including such delicacies as lobster Cantonese, crêpes suzette, and champagne. Hygienic standards are now as high as the best of restaurants. Steel counters, leather or plastic seat covers, terrazzo floors, chrome decorations, and an easily washed plastic ceiling make the diner an easy place to keep clean.

Diners have a special appeal to restaurateurs today, for they are relatively inexpensive to buy and can be operated with a high degree of efficiency. These modern diners are constructed on an assembly line, largely from pre-fabricated parts. If business is bad, a diner can be jacked up, put on wheels, and hauled to a more promising spot. In many of the modern diners, the waitresses never have to walk more than 34 feet in any direction to fill an order. This efficiency has enabled as many as 2,500 people to be served in one day in a 92-seat diner.

### Illinois Restaurants

Illinois is exceeded by only two states, New York and California, in number of restaurants and volume of restaurant sales. It is estimated that the sales of the State's 10,000 restaurants amounted to more than \$425 million in 1948, making it the fourth largest retailing group in the State. Almost 60 percent of the State's restaurants are located in the Chicago area. They include many world-famous establishments and account for about 75 percent of sales.

Although sales of Illinois restaurants have grown slowly since the end of World War II, this increase is, for the most part, a reflection of higher prices rather than increased volume. In addition, these sales have been divided among a larger number of restaurants, and operators have been faced with higher costs of operation and lower profit margins. While the final outcome of this situation depends to a large extent on factors outside the control of restaurant operators, such as costs of foodstuffs and labor, incomes, and sizes of families, restaurant owners have had to adapt themselves by seeking out new customers and by cutting operating costs.

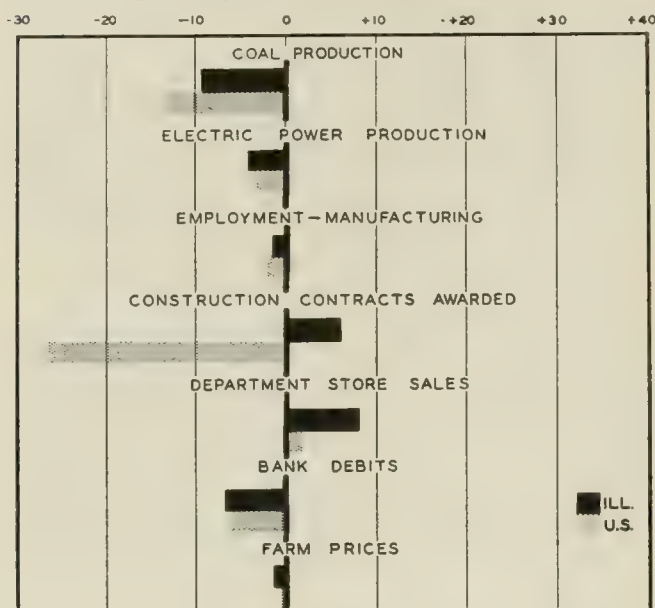
Since early 1952 there have been several indications that the postwar readjustment of the restaurant industry is nearing completion. Dollar sales of all the nation's restaurants reached \$12.7 billion in 1952, more than \$600 million higher than the previous postwar peak of 1948, and sales for the first nine months of 1953 indicate still larger sales for that year. Some of the favorable trends affecting the industry are growing population, increased private travel, and high levels of income. In addition, the same factors which are causing the present increase in commercial building—the obsolescence of old buildings and the gradual migration of commercial buildings out of crowded downtown areas—seem likely to bring about the construction of restaurants which are more easily accessible, more pleasant, and more efficient.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes October, 1953, to November, 1953



## ILLINOIS BUSINESS INDEXES

Item	November 1953 (1947-49 = 100)	Percentage Change from	
		Oct. 1953	Nov. 1952
Electric power <sup>1</sup>	168.8	-4.0	+14.0
Coal production <sup>2</sup>	83.4	-9.4	+3.0
Employment—manufacturing <sup>3</sup>	108.9	-1.5	-0.4
Payrolls—manufacturing	n.a.		
Dept. store sales in Chicago <sup>4</sup>	108.0 <sup>a</sup>	+0.9	+6.9
Consumer prices in Chicago <sup>5</sup>	116.4	-0.6	+1.1
Construction contracts awarded <sup>6</sup>	167.2	+5.9	+13.6
Bank debits <sup>7</sup>	137.1	-6.7	+12.2
Farm prices <sup>8</sup>	97.7	-1.2	-7.7
Life insurance sales (ordinary) <sup>9</sup>	146.4	-3.5	+15.0
Petroleum production <sup>10</sup>	92.4	-2.6	+4.1

<sup>1</sup> Federal Power Commission; <sup>2</sup> Illinois Department of Mines; <sup>3</sup> Illinois Department of Labor; <sup>4</sup> Federal Reserve Bank, 7th District; <sup>5</sup> U. S. Bureau of Labor Statistics; <sup>6</sup> F. W. Dodge Corporation; <sup>7</sup> Federal Reserve Board; <sup>8</sup> Illinois Crop Reports; <sup>9</sup> Life Insurance Agency Management Association; <sup>10</sup> Illinois Geological Survey.  
<sup>a</sup> Seasonally adjusted. n.a. Not available.

## UNITED STATES MONTHLY INDEXES

Item	November 1953	Percentage Change from	
		Oct. 1953	Nov. 1952
Personal income <sup>1</sup>	Annual rate in billion \$		
Manufacturing <sup>1</sup>	285.4 <sup>a</sup>	-0.6	+3.0
Sales	295.2 <sup>a</sup>	-1.6	+5.1
Inventories	46.1 <sup>a, b</sup>	-0.4	+5.7
New construction activity <sup>1</sup>			
Private residential	12.2	-3.3	-0.4
Private nonresidential	12.3	-3.4	+12.9
Total public	11.4	-13.2	+2.9
Foreign trade <sup>1</sup>			
Merchandise exports	14.9 <sup>c</sup>	+0.6	+2.4
Merchandise imports	9.7 <sup>c</sup>	-12.1	-11.4
Excess of exports	5.2 <sup>c</sup>	+38.3	+44.9
Consumer credit outstanding <sup>2</sup>			
Total credit	28.3 <sup>b</sup>	+0.3	+14.8
Installment credit	21.6 <sup>b</sup>	+0.5	+20.2
Business loans <sup>2</sup>	23.2 <sup>b</sup>	-0.4	+0.7
Cash farm income <sup>3</sup>	40.8	-7.9	+2.7
Indexes (1947-49 = 100)			
Industrial production <sup>2</sup>			
Combined index	130 <sup>a</sup>	-1.5	-2.3
Durable manufactures	147 <sup>a</sup>	-2.6	-2.6
Nondurable manufactures	116 <sup>a</sup>	-0.9	-1.7
Minerals	113 <sup>a</sup>	-0.9	-4.2
Manufacturing employment <sup>4</sup>			
Production workers	107 <sup>a</sup>	-1.4	-2.1
Factory worker earnings <sup>4</sup>			
Average hours worked	100	-1.0	-2.9
Average hourly earnings	134	0.0	+4.1
Average weekly earnings	134	-1.0	+1.1
Construction contracts awarded <sup>5</sup>	182	-26.3	+11.6
Department store sales <sup>2</sup>	112 <sup>a</sup>	+1.8	+0.9
Consumers' price index <sup>4</sup>	115	-0.3	+0.6
Wholesale prices <sup>4</sup>			
All commodities	110	-0.4	-0.8
Farm products	94	-1.8	-9.7
Foods	104	-0.9	-3.6
Other	115	-0.1	+1.5
Farm prices <sup>3</sup>			
Received by farmers	92	-0.4	-10.1
Paid by farmers	111	+0.4	-1.8
Parity ratio	90 <sup>d</sup>	-1.1	-8.2

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for October, 1953; comparisons refer to September, 1953, and October, 1952.  
<sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1953					1952
	Dec. 26	Dec. 19	Dec. 12	Dec. 5	Nov. 28	Dec. 27
Production:						
Bituminous coal (daily avg.)	1,515	1,383	1,398	1,367	1,484	1,723
Electric power by utilities	8,173	8,896	8,661	8,582	8,138	8,280
Motor vehicles (Wards)	85.3	123.2	105.8	116.9	69.2	97.7
Petroleum (daily avg.)	6,158	6,154	6,131	6,085	6,133	6,525
Steel	89.9	118.3	121.7	122.8	121.8	132.8
Freight carloadings	481	618	652	662	596	710
Department store sales	163	234	216	190	133	237
Commodity prices, wholesale:						
All commodities	110.1	110.1	110.1	110.2	110.0	109.6
Other than farm products and foods	114.4	114.5	114.5	114.6	114.6	112.9
22 commodities	88.3	87.9	88.6	88.6	88.0	90.2
Finance:						
Business loans	23,361	23,130	23,081	23,134	23,205	23,494
Failures, industrial and commercial	162	210	216	202	173	95

Source: Survey of Current Business, Weekly Supplements.



# RECENT ECONOMIC CHANGES

## Business Failures Rising

One sign of the growing competitive struggle for a share of the consumer's dollar is the rising number of business failures evident in recent months. During the early months of 1953 the number of bankruptcies was roughly in line with failures in the opening months of 1951 and 1952 (see chart), but since midyear business failures have been on the upgrade.

For the first 11 months of 1953, an average of 732 business firms failed each month. This is 5 percent lower than the monthly number of failures in 1949 and about the same as in 1950, but higher than in other postwar years. Between June and November of 1953 failures averaged 764 a month, up 27 percent from the corresponding period of 1952. As shown by the chart, retail and wholesale trade firms—which constitute roughly 45 percent of the business population—accounted for the bulk of the increase, although manufacturing and mining failures were also up substantially from year-ago levels. Construction and commercial companies' failures, usually accounting for less than 20 percent of total failures, were not significantly higher in number in the first 11 months of last year than in the two previous years.

Liabilities of failing firms were also up sharply in 1953. For the first 11 months of 1953, liabilities averaged \$29 million compared with \$24 million in 1952 and \$22 million in 1951.

## New Security Offerings Decline

Corporations offered \$1.6 billion of new securities for sale during the third quarter of 1953. With offerings low in both July and August, the total for the quarter was down 40 percent from the previous quarter and 25 percent from the third quarter of 1952. The lower volume of new issues in the July-September quarter may be attributable partly to higher costs of equity and debt financing and partly to greater reliance by corporations on retained earnings and depreciation reserves to meet capital requirements.

The third quarter decline brought security offerings for the first nine months of 1953 to \$6.4 billion, 10 percent below the corresponding period a year ago.

Accompanying this decrease has been considerable shifting among industries issuing new securities. In the first nine months of 1953, new issues offered by manufacturing corporations amounted to only 26 percent of total offerings, compared with 40 percent in 1952. Other declines occurred in the transportation and communications industries. Communications firms, however, had scheduled their major financing for 1953 for the fourth quarter. Issues of financial and real estate firms were up sharply, from \$340 million in the first three quarters of 1952 to \$1.4 billion in the same period of 1953, accounting for 22 percent of total issues this year, as opposed to less than 5 percent in 1952. Most of this increase reflects the substantial volume of funds required by commercial credit companies in connection with the expansion in installment debt during the past year. Electric and gas utilities have maintained a large volume of new issues, with their offerings in the first nine months of 1953 slightly higher than in the same months of 1952.

## Production Index Revised

A major revision of the Federal Reserve Board's monthly index of industrial production has been announced. The revision applies mainly to output in the years since 1946. The most noticeable change is a shift in the base period from 1935-39 to 1947-49. Equally important is an increase from about 100 monthly production series used in the old index to 175 series in the new. Approximately 40 of the additional production series measure output in areas previously represented only indirectly.

The introduction of comprehensive annual indexes of output further improves the index, since the level of the monthly series may now be adjusted each year. As a rule, the old index was adjusted only after a new census was available.

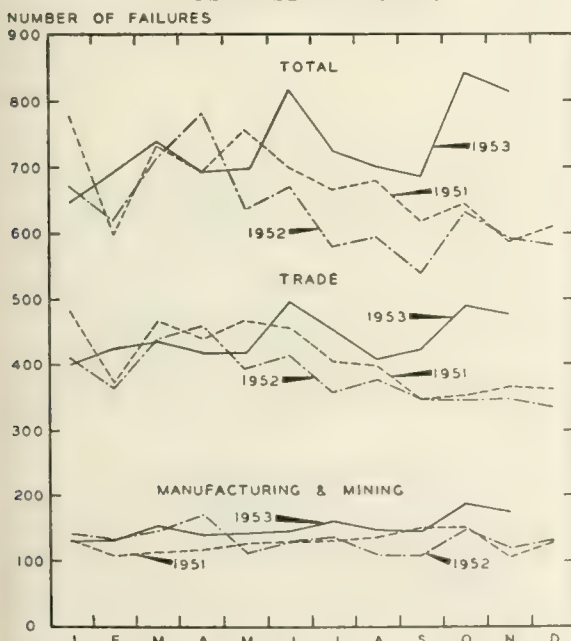
Another improvement is the use of detailed information collected in the 1947 *Census of Manufactures* and of other new data available since World War II in assigning relative importance to the individual series. As a result, manufacturing industries now account for 90 percent of total industrial production compared with 85 percent in the old index. The importance of durable goods output in the index has also been increased, accounting for 45 percent of the total weight compared with 38 percent previously. The weights assigned output of nondurable goods industries and mining industries on the other hand are somewhat smaller.

## Investment Expenditures Continue Strong

In November, businessmen reported intentions to invest \$7.4 billion in new plant and equipment during the final quarter of 1953. If they lived up to their expectations, capital outlays for the year 1953 totaled \$27.8 billion, 5 percent above outlays in 1952. Anticipated fourth quarter expenditures, on a seasonally adjusted annual rate basis, were down slightly (about 2 percent) from actual third quarter outlays of \$28.8 billion. A further decline to an annual rate of \$28 billion is indicated for the first quarter of 1954, according to the November survey of business investment intentions.

Even considering decisions to lower investment in the

BUSINESS FAILURES



Source: Dun and Bradstreet

first quarter below the 1953 peak, outlays in the opening three months of this year are expected to better the first three months of 1953 by more than 5 percent (see chart). Expansion by manufacturing firms, which accounted for 45 percent of total investment in 1953, has slowed. Their anticipated expenditures for the first quarter of this year are only 3 percent above year-ago levels. Public utilities, on the other hand, expect to maintain the sharp rate of expansion of recent years. Their expenditures in the first quarter of 1954 are scheduled at an annual rate of \$4.5 billion, 12 percent more than in the first quarter of 1953. Also important in maintaining high-level investment in the first quarter is the commercial, service, and construction group. First quarter outlays by these industries are scheduled at \$8 billion, 9 percent more than a year ago.

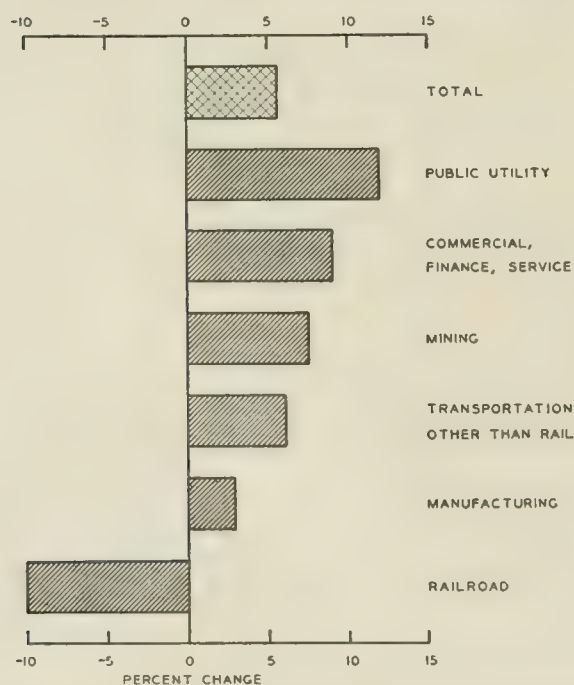
## Employment Declines

The number of persons employed in December totaled 60.8 million, down from the November level by about 1.2 million workers. The decline, largely seasonal, centered mainly in agriculture, as the number of nonfarm workers remained at the November level of approximately 55.3 million. Manufacturing employment continued to fall, but this drop was offset by the seasonal influx of workers into retail trade jobs.

As a result of decreases in agricultural and manufacturing employment, unemployment advanced by more than 400,000 to 1.9 million workers. This increase in unemployment was considerably less than the decline in employment because many workers, particularly farm housewives, left the labor force during December. Census data, in thousands of workers, are as follows:

	December 1953	November 1953	December 1952
Civilian labor force.....	62,614	63,353	62,921
Employment.....	60,764	61,925	61,509
Agricultural.....	5,438	6,651	5,697
Nonagricultural.....	55,326	55,274	55,812
Unemployment.....	1,850	1,428	1,412

**PLANT AND EQUIPMENT INVESTMENT**  
Percent change, 1st Qtr., 1953—1st Qtr., 1954



Sources: Department of Commerce and Securities and Exchange Commission.

Despite reversals in recent months, average monthly employment for the year 1953 continued at the high levels of the two previous years. Nonagricultural employment averaged 55.4 million, a new record and about 1 million above 1952. Farm employment was down from 1952, reflecting the long-term trend of increased farm productivity and the declining need for farm labor. Unemployment, though rising toward year-end, averaged only 1.5 million per month in 1953 to establish a postwar low.

## The Business Outlook

(Continued from page 2)

an offsetting increase in Social Security taxes for many workers, but in the aggregate this offset will amount to only a fraction of the cut in income taxes. Taxes will tend to decline further—and more than proportionally—with declines in income. In addition, unemployment payments will rise sharply.

Savings have been running at a relatively high rate, and liquid asset holdings of consumers are at a peak. Any reduction in saving will probably be very limited in view of last year's heavy purchases of such items as automobiles on installment credit, but a deflationary increase in savings can hardly be considered to threaten.

The net effect of all these factors will be to keep consumer spending high. Something like half the decline that might otherwise occur will be compensated. There will, however, be some shifting of expenditures—probably in the direction of further declines in durable goods, continued advances in services, and firming tendencies in the relatively depressed nondurables.

## Another Good Year Ahead

The stability in these large segments of the economy is important not only in its own right but because it offers the best assurance that the inventory reversal will be held to moderate proportions. A situation in which it is comparatively easy to liquidate inventories minimizes the incentive to do so. The experience of 1951-52 indicates the willingness of business to hold large inventories; and most, though not all, of the accumulation in 1953 was voluntary. Although some reductions in stocks appear to be desirable, there is no reason to dump them indiscriminately.

If this appraisal of the situation is correct, the decline will continue to about the middle of 1954, resulting in an annual rate of gross national product some \$20 billion below the \$372-billion high realized in the second quarter of 1953. Thereafter, there will be a tendency to stabilize, and the second half of the year may produce some recovery from the low. Much depends upon the outcome of government action. If programs are cut as much as the advocates of economy desire, the decline is likely to continue, though at a less rapid pace. If vigorous action to counter the recession is taken, the recovery could be substantial.

The movement as a whole represents what has previously been referred to as a minor fluctuation in a period of general prosperity. Unemployment may continue to increase through most of 1954—to a level of, say, 3½ million workers, which could still be regarded as within the range of a full employment economy. We repeat that the situation justifies the maintenance of policies consistently geared to prosperity conditions.

VLB



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Fluorescent Chalks

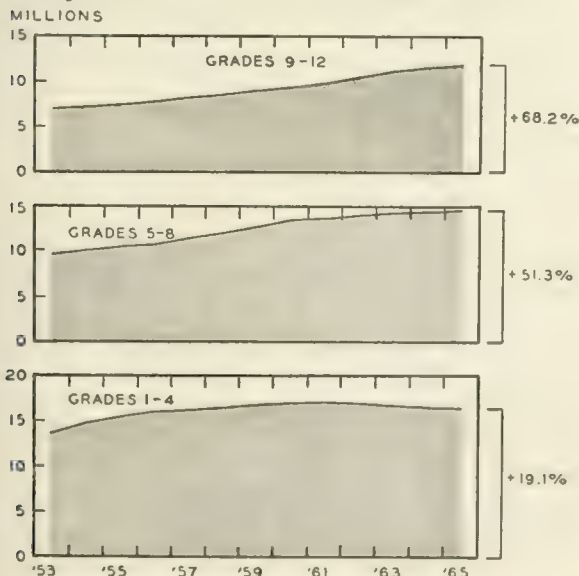
A new fluorescent chalk has been added to the line of special chalks for lecturers, chalk-talk artists, teachers, and others by the American Crayon Company, Sandusky, Ohio. Named "Hi-Glo," the new chalks come in shapes measuring 1 by 1 by 3 inches and are packaged in a sleeve-type unit. Marketed in red, orange, yellow, green, and violet, the colors can be activated by black or blue light, thus adding a new dimension for vivid color effects.

### Changes in School Enrollment

One-fourth more children will be enrolled in public and private schools in 1959 than were in attendance in 1953, according to the latest projections by the United States Bureau of the Census. The number of children enrolled in elementary and high schools is expected to increase annually by 1.3 million—a rate of about 4 percent per year—until 1959 when last year's babies enter school. Changes in the primary grades after that time cannot be accurately determined since they reflect annual changes in the birth rates between now and 1960. However, the Census Bureau estimates that elementary school enrollment will remain somewhere near the 1959 level at least until 1965. The total number of elementary and high school students enrolled in 1959 will be approximately 39 million.

The chart below shows that during the next several years, the first four grades will bear the major burden of these gains although the other grades will also be expanding at a substantial rate. As the number of children in the first four grades levels off, peak enrollments will be experienced first in grades 5 through 8 during the late 1950's and then in the high schools during the early 1960's. By 1965 the total number of students in high school will reach 12 million or 68 percent more than in 1953. In contrast, Census Bureau projections indicate that the first four grades will be 19 percent larger in 1965 than they were last year and that the number of students in grades 5 through 8 will rise 51 percent.

PROJECTED U. S. SCHOOL ENROLLMENT



Source: Bureau of the Census.

### Bibliography of Management Controls

Because of a growing interest in the subject of adequate management controls, an annotated bibliography of some of the most valuable books and articles in the field has been prepared by Henry C. Thole, Industrial Project Director of the W. E. Upjohn Institute for Community Research. The bibliography is arranged under the following topics: basic material; plans and policies; organization for control; tools for control, which include management audits, operations research, check lists, management reports, and outside assistance; appraising and measuring results; and company systems of control. Entitled *Management Controls*, the pamphlet contains more than 200 entries. Single copies may be obtained free of charge from the W. E. Upjohn Institute for Community Research, 709 South Westnedge Avenue, Kalamazoo, Michigan.

### New Store Scale

A scale that weighs packages to the correct fraction of an ounce and at the same time prints the correct weight and price on a label is being manufactured by the Toledo Scale Company, Toledo, Ohio. The store clerk sets the scale, named "Value-Print," for a given price per pound. As the scale weighs the package, it prints the set price, the weight, and the computed price of the package. Particularly useful for grocery stores and meat markets, the scale comes with a companion unit called "Serve-A-Label" which automatically imprints commodity names from a selection of 200 printing inserts. Price of the scale is about \$1,750.

### International Travel Office

In recognition of the importance of travel in the international economy, the United States Department of Commerce is taking steps to create an office of international travel. Purpose of the new office would be to increase trade abroad by expanding tourist promotional activities. It would collect, analyze, and exchange information as well as recommend programs to Congress and to other departments of the government. To be made up of recognized authorities in the field, the commission's aim would be to stimulate international travel as a means of increasing dollar earnings abroad and of fostering the interchange of persons for better world understanding.

### Automotive Antifreezes

Although the main function of an automobile antifreeze is to prevent partial or complete solidification of an engine coolant when low temperatures prevail, the ideal antifreeze also possesses certain other properties which are completely discussed in Circular 506, *Automotive Antifreezes*, of the National Bureau of Standards. The pamphlet explains differences in the various types of antifreeze solutions and what kind is best suited to the service required. A discussion of engine cooling systems and directions on the proper use of an antifreeze are also included. A bibliography of 185 items indexed by specific aspects of the antifreeze and coolant problem is also a part of Circular 506, which is on sale by the Superintendent of Documents, United States Government Printing Office, Washington 25, D.C., for 15 cents.

# RESOURCES FOR THE FUTURE

WALTER H. VOSKUIL, Mineral Economist

Illinois State Geological Survey

The United States is recognized by all the world as a nation with an immense wealth of natural resources. But recent rates of drain and the prospect of further increases in demand are causing concern over future supplies and costs.

As a means of anticipating the problems that underlie this concern, the Mid-Century Conference on Resources for the Future was organized. It met in Washington, D. C., from December 2 to 4, inclusive, for a three-day examination of the natural resources position of the United States and the probable developments to be expected in the next quarter century. Nearly 1,500 participants from industry, labor, business, social and physical sciences, and state and Federal governments were in attendance.

Most of the work of the conference was done in eight sections meeting concurrently on various aspects of the resources problem. These were Competing Demands for Land Use, Utilization and Development of Land Resources, Water Resource Problems, Domestic Problems of Non-Fuel Minerals, Energy Resources Problems, United States Concern With World Resources, Problems in Resource Research, and Patterns of Cooperation.

## Land and Its Use

The total land surface available is virtually nonexpandable, yet the nation's demand for land keeps growing and the pattern of use keeps changing. Our population increased from 76 million in 1900 to 160 million at present. Recent Census Bureau projections place our 1975 population in the range of 198 to 221 million. The varying needs of the people for land are given emphasis in such issues as the need for open space for recreation and transportation facilities, the problem of reconciling industrial and home sites, and the taking over of farm land for urban uses.

In 1950 nearly 60 percent of the total surface area of 1,904 million acres was in agricultural use; 24 percent in commercial forest land; 6½ percent in noncommercial forest land; 5½ percent in land committed to urban, industrial, and other special uses; and 4½ percent in desert, rock, marsh, and other nonproductive surface.

The United States has always been free from the specters of hunger, famine, and starvation. The current problem has rather been one of food surpluses. But increases in population and food consumption per capita offer no assurance that this will always be true. Moreover, the demand for nonfood products such as fibers and wood, which is also expanding, will exert increasing pressures on land suitable for food production.

The Department of Agriculture has estimated that most of the additional farm output needed by 1975 will come from continued increases in productivity on land already under cultivation. Some further extensions of crop land are possible but the consensus of opinion is that the maximum increase will be about 10 percent above the present level. The answer must then be increased productivity on land now in use for agricultural purposes.

Obtaining the necessary increase in productivity will require intensified efforts to bring improved techniques into application—increased use of fertilizer, machinery, and many other technical aids, including those yet to be

discovered. For example, the underlying problem in a more effective use of mineral plant food elements in crop production is an extended program of research in the effects of minor chemical elements on crop growth, of which much remains unknown, and in the production of concentrated fertilizer materials to reduce transportation costs over long distances.

In timber and wood production the United States has been shifting from a timber-mining to a sustained-yield timber management economy. During the past 50 years timber growth has risen sharply—so much so that total growth is now about equal to total drain. A growing population, a rising standard of living, and technological advances in the utilization of wood for a wide variety of purposes make it certain that in the next 25 years the demand for wood will tend to increase. Improved management that will grow more wood is essential, but it must be supplemented by more complete utilization of material not now used and by practices that will make wood last longer in service.

## Water Resources

The use of land is inextricably associated with the water supply and the use of available water. Everyone agrees that there is an abundance of water in the United States but not always a favorable geographical distribution. There is evidence of local areas where groundwater supplies have been "mined" so that they approach exhaustion, and of streams whose flow has been largely or wholly claimed. This does not mean that any general shortage threatens or even that the damage of overuse is irreparable in those areas. The one generalization we can safely make about water supply and demand is that each basin is unique with its own special conditions of rock, soil, vegetation, climate, and human use. Each has its own delicate balance of these factors.

Given this basic approach, effective and highly productive use of water requires careful planning. The productivity of water is defined in terms of providing for all possible human needs for water. Hence, the concept of planning river basin development for all valid multiple purposes will in each case include some or all of the following: water supply, navigation, power, irrigation, drainage, flood control, recreation, pollution control, and fish and wildlife.

## Non-Fuel Minerals

Consideration of the problems of mineral supply was undertaken in general recognition that available domestic resources must be enlarged to meet the needs of an expanding economy and to bolster the nation's security. No nation in the world produces within its own borders all the mineral raw materials it would like to use. The United States is no exception. Regardless of how much may be imported from abroad, there is the possibility that it may not be enough or that it may not be dependably available.

In terms of national security, we should continue to rely upon domestic production and imports from foreign nations within secure means of access. The central core



of the problem of mineral supply, particularly nonferrous mineral supply, is that we must find new deposits, exploit more effectively the deposits we know about, and examine the possible use of alternative materials.

The general recommendations by the group of participants were (1) that mineral taxation should be modified so as to stimulate exploration and development and to promote more efficient extraction, (2) that the present program of geologic mapping should be accelerated and completed, and (3) that the system of acquiring title on public lands to mineral properties through the claim-patent system is essentially sound and, with modification to remove abuses of the system, should be preserved.

Discussion of commercial policy with respect to particular materials centered around lead, zinc, and copper. Those who believed that exceptions to a liberal commercial policy should be made in the case of these materials emphasized security considerations, including the necessity of having a healthy mining industry in the event of war and the hardships involved in shutting down domestic operations in favor of foreign sources of supply. Those opposed to exceptions for these materials noted that for most of them alternative low-cost sources of supply are available in relatively safe areas already and offered the opinion that hardship cases might be handled better in some other way than by raising the price to all consumers in the United States through tariff increases.

The use of substitutes presents a number of complications. In a real sense there are no substitutes, merely alternative means of meeting the same need. What we ordinarily think of as substitutes are materials that meet the need less efficiently or only at much higher cost. The problem is to avoid the loss of efficiency or the inordinate increase in cost. Even if this is possible in some cases, there may be a danger of transferring the shortage problem to another material.

## Energy

One of the obvious areas of spectacular growth will inevitably be in the need for energy resources. One of the experts in this field predicted a fourfold growth in the demand for energy in the next 25 years. He outlined a number of technological problems for which concentrated research will undoubtedly provide solutions, making it possible to meet this larger demand.

The major unutilized coal reserves lie in the lignite and subbituminous fields of the Missouri Plateau and the Rocky Mountains. Utilization will inevitably involve major shifts in population, in the locus of industrial activity, in transportation facilities, and in other economic activities. And to avoid chaos these social factors should be anticipated in any resource research program.

A critical problem is that of the formulation of an oil supply policy. The current surpluses, particularly of residual fuel oils on the Atlantic seaboard, have tended to obscure the fact that demand for oil products has grown more rapidly than for any other type of fuel and that even the rapid expansion of crude oil output in the United States may not be able to meet the growing demand indefinitely. Supplementary sources suggested are oil from shale, oil from coal, imported oil, and the substitution of coal for oil. To a certain extent each one of these supplementary sources can be developed concurrently.

The most controversial policy at the present time is that regarding oil imports. Large oil imports conflict di-

rectly with the coal industry and the marginal oil producers in the United States. It is also pointed out in this connection that the largest known reserve of oil, that in the Middle East, cannot be regarded as an assured source of supply because of the difficulties of defending this area and maintaining oil flow in the event of a major war.

Also of importance in the problem of energy supply is the continuing development of unconventional forms of energy, principally nuclear and solar energy. There was a clear consensus that power from nuclear energy will not constitute a large fraction of the total installed capacity within the two decades between the present and the 1975 date with which the Conference has been concerned. By that time, however, it may supply a fairly large portion of the new facilities being put in place. It was equally clear that eventually the contribution of nuclear energy to the nation's power store will be of major significance, though problems of technology involved in the breeder reactor, not to mention the influence of current military reliance upon atomic energy, still await solution.

The possible contributions to the economy that may be expected from solar energy similarly are conditioned in great measure upon the counterbalance existing between economics and technology. The sun now heats water for residents of Florida on a thrifty basis. Though one may not yet blithely extrapolate that the sun unaided will heat his house for him if he elects to live in the North, it was seen that when technology has had more opportunity to cut down present economic barriers, solar heating of houses will be of marked importance in the nation's way of life.

These unconventional forms of energy should not be regarded as last-resort alternatives to existing sources of fuel and power, but as potential sources to be brought into use as soon as it is economically possible to do so. Predictions as to the time of use and rate of introduction are impossible. What is clear is that these two sources of energy are potentially so large that extensive research, both by public agencies and by private industry, is justified in an effort to convert them into economic realities.

## Research

All through the discussion of these various topics there recurs the question as to whether we can safely let things alone to work themselves out or whether action toward a solution should be initiated now. It was stressed that knowledge grows unpredictably and that scientific discoveries cannot be predicted, nor their long-range effect. There are haphazard elements in the financial and public support of research and in the availability of competent personnel. Some guidance can be given in the direction, or directions, that fundamental research may take, and in considering a program for the future it should be noted that, to date, there has been much more ample backing for the physical sciences than for the biological sciences. As a result there is greater need for fundamental information in biological fields than in physical, but in the whole area of science and technology there is comparatively little correlation with the social problems which they create.

Scientific research is a collective effort, and in our educational institutions there should be more emphasis upon the importance of and the rigorous requirements of interdependence.

# LOCAL ILLINOIS DEVELOPMENTS

Although business activity in Illinois in November was generally below the October level, most indexes were higher than a year ago. Electric power production, construction contracts awarded, bank debits, and life insurance sales were each up more than 12 percent from November, 1952. The only indexes to decline from the preceding year were manufacturing employment and steel production (off less than 5 percent), farm prices received (down 8 percent), and cash farm income (off 16 percent).

## Highway Construction Expenditures

Spending for highway construction in Illinois reached a high of \$83.5 million last year—up 17 percent from the previous record established in 1952. Maintenance work during 1953 cost \$20.4 million. Projects completed during the year included 94 miles of new concrete pavement; 471 miles of resurfacing; 274 miles of widening on the primary highway system; and 600 miles of surfacing, or widening, or both, on secondary roadways. Ninety-nine bridges were built, 52 bridges widened, and seven railroad grade separations constructed.

Highway spending in 1954 is expected to exceed last year's by almost \$1 million. Total outlay in 1954 has been set at \$84.5 million, with most of that amount allocated for specific projects in the 10 highway engineering districts. Highlights of the new program include a metropolitan expressway system in Cook County and the completion of Route 66 as a four-lane highway from Livingston County, just north of Chenoa, to Mount Olive in Macoupin County.

## Illinois Agricultural Production

Illinois farmers harvested \$1.2 billion worth of field crops in 1953, 10 percent below 1952 but 18 percent above the average of the past ten years. The Crop Reporting Service of the State-Federal Agriculture Departments blamed "a combination of reduced yields and lower prices" for the sharp drop. Corn was the most valuable product, accounting for 59 percent of total Illinois crop value. Soybeans were second, providing for 16 percent of the total, followed by wheat, 9 percent; hay, 8 percent; and oats, 7 percent.

The commercial vegetable crop in 1953 totaled \$20.5 million. Although total acreage planted was up, lower market prices were responsible for a slight downturn from the 1952 level. The value of processed vegetables was twice that of fresh market produce. Cabbage and sweet corn were the only fresh market crops to bring in over \$1 million, whereas asparagus, sweet corn, green peas, and tomatoes were among the processed crops to top the \$1-million mark.

Attracting the interest of Illinois farmers is a new soybean variety developed cooperatively by the Illinois Experiment Station and the United States Regional Soybean Laboratory. Proven to be especially well suited to the central and southern portions of the State, the new variety is a big-yielding legume with a high oil content. It matures about eight days later than the well-known "Lincoln" variety and yields approximately six bushels more per acre. Known as "Clark," the new soybean is also recommended for its resistance to frog-eye leaf spot. However, it has about the same degree of susceptibility and resistance to other diseases as similar varieties now grown in this area.

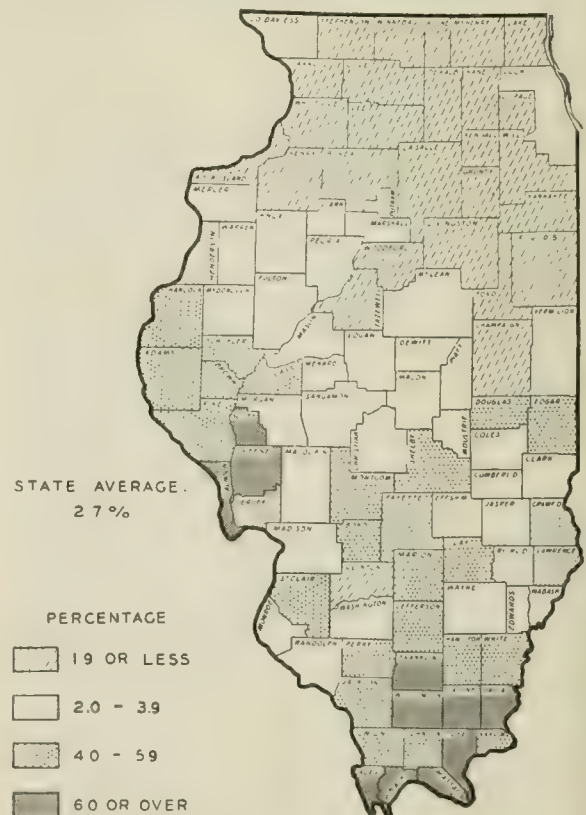
## Public Aid in Illinois

Fewer than 3 percent of all Illinois residents required help from State welfare funds during August, 1953. Of the \$10.6 million distributed among the five major programs of the Illinois Public Aid Commission, over half were used for old age benefits and about one-fourth for aid to dependent children. General assistance took another 17 percent of the funds, and blind and disability benefits about 5 percent.

The chart below shows that the least need for public welfare was concentrated in the northern portion of the State. Lowest dependency rates were in McHenry and DuPage counties where only 6 out of every 1,000 persons required benefits last August. Greatest incidence of need exists in eight counties in southern Illinois (including Saline, Gallatin, and Pulaski counties where more than 10 percent of the residents received public assistance), and in three counties along the western border. In these areas family incomes are below the Illinois average, housing and health conditions are poorer, and unemployment rates are high.

The fact that the coal and agriculture industries upon which southern Illinois has always been almost wholly dependent are declining in terms of manpower needs accounts for the higher dependency rates in this area. For example, the coal industry now employs only about one-fourth the number of people it needed in the early 1920's, and agricultural employment in that area declined 8 percent between 1940 and 1950.

PROPORTION OF POPULATION RECEIVING PUBLIC AID, AUGUST, 1953



Source: Illinois Public Aid Commission.



# COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

November, 1953

		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>5</sup> (000,000)	Postal Receipts <sup>6</sup> (000)
<b>ILLINOIS</b>							
		\$20,777 <sup>a</sup>	935,751 <sup>a</sup>	\$556,208 <sup>a</sup>		\$11,985 <sup>5</sup>	\$14,937 <sup>a</sup>
Percentage Change from...	{Oct., 1953.	-25.8	+2.5	+5.5	+8	-6.7	-1.5
	{Nov., 1952.	-18.9	+2.2	+0.6	+5	+12.2	+12.6
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b>							
		\$16,783	730,540	\$406,428		\$10,938	\$13,229
Percentage Change from...	{Oct., 1953.	-20.7	+3.2	+6.3	+8	-6.3	-1.6
	{Nov., 1952.	-15.1	+1.7	+0.4	+5	+12.9	+12.3
<b>Aurora</b>							
		\$ 115	n.a.	\$ 7,846		\$ 46	\$ 98
Percentage Change from...	{Oct., 1953.	-68.6		+7.3	+8	-8.1	-12.1
	{Nov., 1952.	-86.0		+3.5	-3	+5.8	+6.9
<b>Elgin</b>							
		\$ 485	n.a.	\$ 5,864		\$ 30	\$ 123
Percentage Change from...	{Oct., 1953.	-14.2		+7.6	n.a.	-1.2	+9.5
	{Nov., 1952.	+55.0		+3.8		+11.2	+17.5
<b>Joliet</b>							
		\$ 282	n.a.	\$13,279		\$ 59	\$ 90
Percentage Change from...	{Oct., 1953.	-30.5		+7.1	+2	-6.9	+6.7
	{Nov., 1952.	-57.6		+12.0	+8	+9.5	+19.8
<b>Kankakee</b>							
		\$ 108	n.a.	\$ 5,793		n.a.	\$ 37
Percentage Change from...	{Oct., 1953.	+8.0		+5.5	n.a.		+0.9
	{Nov., 1952.	-10.7		+5.3			+9.3
<b>Rock Island-Moline</b>							
		\$ 476	18,473	\$ 9,777		\$ 80 <sup>b</sup>	\$ 149
Percentage Change from...	{Oct., 1953.	-52.6	+6.3	+1.2	n.a.	-0.9	-6.2
	{Nov., 1952.	-49.0	+8.0	-7.2		+7.5	+16.1
<b>Rockford</b>							
		\$ 601	31,681	\$17,246		\$ 130	\$ 188
Percentage Change from...	{Oct., 1953.	-29.1	+3.4	+4.6	+11	-4.4	+6.5
	{Nov., 1952.	-31.7	+9.4	+6.2	+3	-0.4	+24.8
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b>							
		\$ 165	6,692	\$ 5,961		\$ 54	\$ 97
Percentage Change from...	{Oct., 1953.	-39.8	-0.9	-12.5	n.a.	-8.4	+9.3
	{Nov., 1952.	+150.0	+5.7	+6.8		+11.4	-0.0
<b>Champaign-Urbana</b>							
		\$ 140	8,435	\$ 7,702		\$ 51	\$ 95
Percentage Change from...	{Oct., 1953.	-28.9	+1.0	+5.1	n.a.	17.1	+1.0
	{Nov., 1952.	+169.2	+6.9	-0.9		+7.3	+7.0
<b>Danville</b>							
		\$ 160	8,725	\$ 6,086		\$ 39	\$ 63
Percentage Change from...	{Oct., 1953.	0.0	+3.2	+1.9	+4	-19.3	-1.5
	{Nov., 1952.	-55.4	+7.0	-5.7	-2	-2.5	+33.2
<b>Decatur</b>							
		\$ 376	22,936	\$10,729		\$ 92	\$ 97
Percentage Change from...	{Oct., 1953.	-65.2	+3.8	+5.1	-4 <sup>c</sup>	-23.5	15.1
	{Nov., 1952.	-20.8	+15.2	+7.1	+4	+9.0	+14.6
<b>Galesburg</b>							
		\$ 128	6,585	\$ 4,331		n.a.	\$ 34
Percentage Change from...	{Oct., 1953.	-14.7	+5.4	+2.8	n.a.		-3.6
	{Nov., 1952.	+220.0	+15.9	+0.2			+14.7
<b>Peoria</b>							
		\$ 223	40,963 <sup>c</sup>	\$17,187		\$ 186	\$ 231
Percentage Change from...	{Oct., 1953.	-61.4	-4.5	-0.6	+9 <sup>c</sup>	-13.1	-8.6
	{Nov., 1952.	-38.9	-6.4	-4.1	+1	+6.6	+21.3
<b>Quincy</b>							
		\$ 181	7,195	\$ 5,153		\$ 34	\$ 75
Percentage Change from...	{Oct., 1953.	-3.2	+2.4	+8.8	1.0	-9.7	+16.2
	{Nov., 1952.	-13.0	+1.6	+3.7	+2.0	+1.3	+8.2
<b>Springfield</b>							
		\$ 210	25,190 <sup>c</sup>	\$13,269		\$ 87	\$ 185
Percentage Change from...	{Oct., 1953.	-47.4	-0.3	+4.6	n.a.	-12.7	-3.4
	{Nov., 1952.	-72.5	+2.0	-6.9		+3.4	+9.7
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b>							
		\$ 141	12,297	\$ 9,692		\$ 126	\$ 71
Percentage Change from...	{Oct., 1953.	+95.8	-4.8	+2.7	n.a.	-6.9	+4.1
	{Nov., 1952.	+107.4	+2.5	+0.1		+5.7	+26.8
<b>Alton</b>							
		\$ 130	10,703	\$ 5,273		\$ 32	\$ 34
Percentage Change from...	{Oct., 1953.	-7.1	-6.7	+2.3	n.a.	-13.0	+22.3
	{Nov., 1952.	+113.1	+2.3	-2.1		+7.2	+29.7
<b>Belleville</b>							
		\$ 73	5,336	\$ 4,592		n.a.	\$ 39
Percentage Change from...	{Oct., 1953.	-75.6	-1.0	+5.3	n.a.		-1.4
	{Nov., 1952.	-20.7	+18.8	+0.7			+6.4

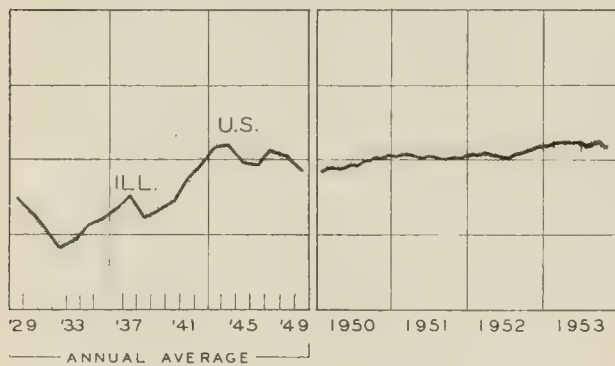
<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.

Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for October, 1953, the most recent available. Comparisons relate to September, 1953, and October, 1952. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

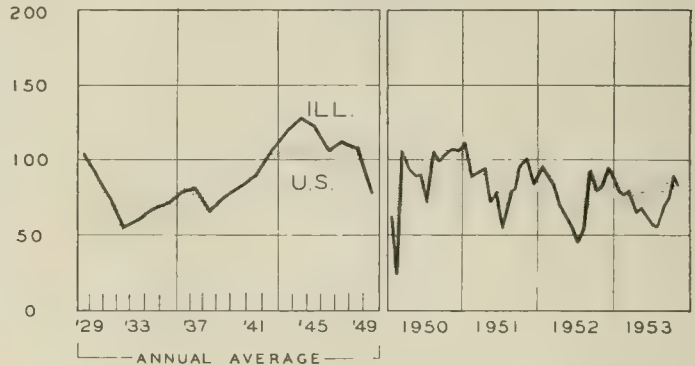
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

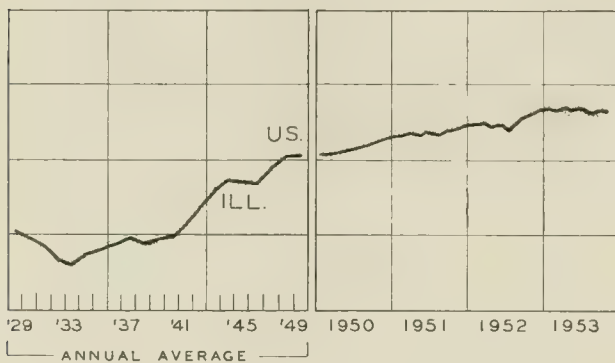
## EMPLOYMENT - MANUFACTURING



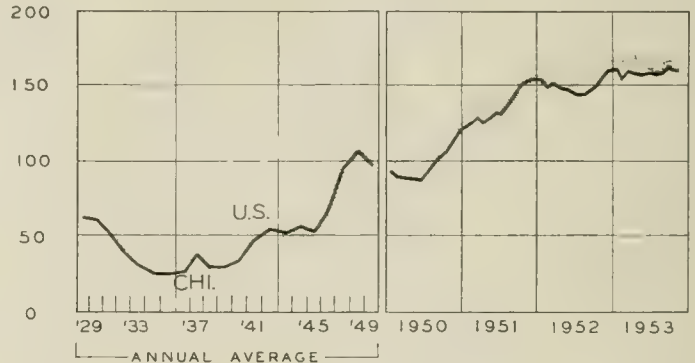
## COAL PRODUCTION



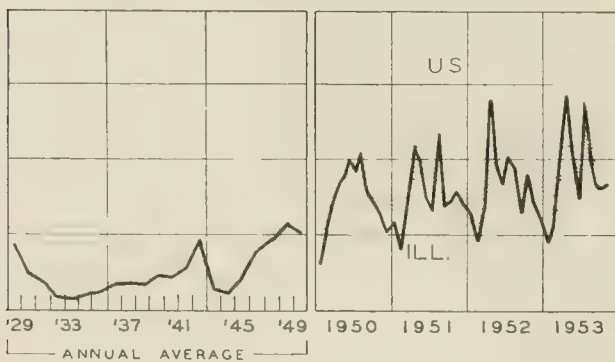
## AVG. WKLY. EARNINGS - MANUFACTURING



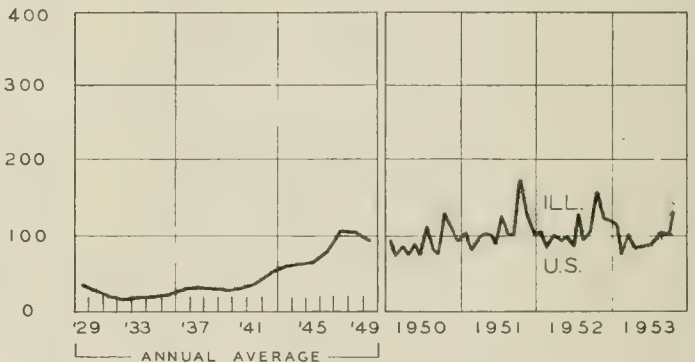
## BUSINESS LOANS



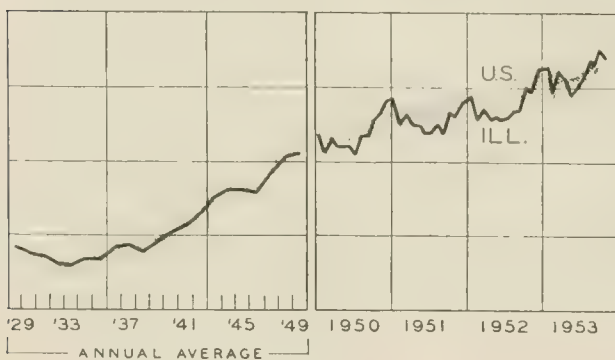
## CONSTRUCTION CONTRACTS AWARDED



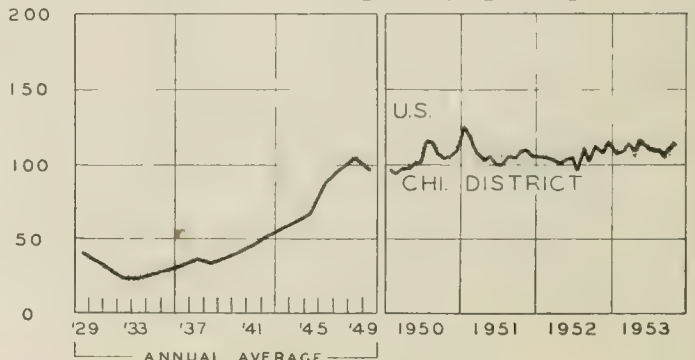
## CASH FARM INCOME



## ELECTRIC POWER PRODUCTION



## DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME XI

FEBRUARY, 1954

NUMBER 2

## HIGHLIGHTS OF BUSINESS IN JANUARY

Industrial activity experienced a slight further decline in January. The Federal Reserve index of industrial production, on its new basis, was slightly below the December figure of 127 percent of its 1947-49 average. This is a drop of a little over 9 percent from the peak attained last March and about 5 percent below last January.

Steel mill operations failed to follow the usual seasonal pattern of expanding output in January, continuing at the December level of about 75 percent of capacity. Automobile production picked up as major model changeovers were completed but then was cut back again as dealers' stocks mounted.

### Unemployment Rises

A not unexpected result of the lower rate of industrial activity has been a rise in the number of people unemployed and looking for work. Unemployment in early January rose 1,200,000 above the December figure to 3.1 million, according to the Bureau of the Census. A large part of the rise was due to slackened industrial activity, though some increase in unemployment from December to January is a fairly regular seasonal phenomenon. Reduced farm and construction work brought about by inclement weather and layoffs of Christmas workers in retail trade served to depress employment this January more than has been usual in previous years.

Evidence that the employment situation may have improved by the end of January is supplied by the fact that the number of new claimants for unemployment compensation declined in each of the last three weeks of the month. Railroads, aircraft factories, and apparel and textile plants were reported to be rehiring many workers on the basis of increased activity in their areas.

### Farm Prices Move Up

The farmer's position improved in January. Higher prices for hogs, beef cattle, and vegetables boosted the index of prices received by farmers by 5 points, or 2 percent, during the month ended January 15. Prices paid by farmers also rose but not as much, with the result that the parity ratio rose one point to 92. Last January, the ratio stood at 94.

Other major price indexes remained fairly steady. The Bureau of Labor Statistics comprehensive index of whole-

sale prices rose slightly during January largely on the basis of sharp increases in livestock prices. The consumer price index for the latest date available, December, 1953, declined slightly to 114.9 percent of its 1947-49 average, as transportation costs fell a little less than 1 percent.

### Construction Activity Well Maintained

Construction activity was maintained at near-record levels in January. Though down seasonally 9 percent from December, the \$2.4 billion of new construction put in place during January exceeded new construction last January by 3 percent.

Private construction outlays registered the main advance over last year, up 5 percent, setting a new record for the month. Largely accounting for this new high were peak outlays for the month on commercial, religious, and educational building and on public utility construction. Private homebuilding also exhibited strength, recording a slight increase over the level of activity last January.

New construction expenditures of the Federal, state, and local governments were down 3 percent over the same period, with only educational and highway outlays registering noticeable gains over January, 1953.

### Rediscount Rate Cut

In an effort to maintain an easy money market, the Federal Reserve System reduced the rate at which member banks can borrow from the System to  $1\frac{3}{4}$  percent shortly after the end of the month. The move followed a decline of \$886 million in business loans during the first four weeks of this year, which compares with a decline of \$369 million during the same interval of last year.

Lowering this basic rate not only makes it cheaper for the banks themselves to borrow money but also places some pressure on the banks to reduce the rates at which they make loans to business. To the extent, therefore, that interest costs do influence business decisions—a subject of considerable controversy—the move should stimulate business activity. Shortly after the lower rediscount rate took effect, reductions in a variety of forms of credit were announced. Whether banks will soon reduce the prime rate on commercial loans is problematical, however, in view of the expected rise in corporate borrowing to meet tax payments on March 15 and on June 15.

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## "All's Well, If Only . . ."

The following are quotations from recent news reports:

"We can maintain prosperity if we do not lose our heads." — former government official.

"The public can become so fearful as to create the dangers which it fears." — business executive.

"The fearmongers could, if they persisted long enough, bring about the very conditions of which they professed to be apprehensive." — business executive.

No doubt you have seen other variations on the same theme. They are almost always accompanied by expressions of faith in the future or assurances that all is well. The sad fact is that they neither forecast nor reassure.

### When Is a Forecast Not a Forecast

The forecast that says, "All's well, if only . . ." is a favorite of the government official who wants to reassure the public but can't bring himself to a definite commitment on the outlook. Lacking confidence in his own prediction, he throws in a "little" hedge against the possibility that things might turn out otherwise.

A good illustration of this was provided at the meetings of the American Marketing Association in Washington during the year-end holiday period. One of the speakers there indicated that the only danger facing the economy was that people would get excited and lose confidence, and he then proceeded to give a list of reasons why there was no need to be afraid. Some of the reasons seemed more like reasons for being afraid than the reverse. Others were concerned with long-term trends or other matters irrelevant to the outlook for 1954. A frequent comment at the end of the meeting was, "I guess things are really worse than I thought."

What the audience wanted to know was: What is the trend of business and where will it bring us? If the state of public psychology is important in the answer, the question becomes: Will the public become panicky or not, and if so, what will be the result? On this important point, nothing was said.

Such a forecast obviously leaves the decision to the listener's judgment as to the public's calmness and stability under stress. Most people, on this point, have a measure of faith in themselves, but display little confidence in the other fellow's dependability. Even the most intelligent are inclined to get out of the burning building "before the stampede blocks the doorways." Under these

circumstances, it is meaningless to talk about cool-headedness, unless at the same time it can be shown that there are reasons why the public is likely to remain cool-headed.

This kind of hedging reflects the futility of trying to forecast in terms of confidence, attitudes, or other psychological states. Such states are likely to change much more frequently and drastically than business conditions themselves. They are, in fact, bound to change with new developments in the business picture. All that is accomplished by this approach is a shift to a more indefinite and uncertain kind of guessing game. Instead of guessing what business will do, it becomes the object to guess how people's states of mind will change as the future unfolds.

The uncertainty involved in assessing other people's states of mind arouses the suspicion that there is no sound way of making judgments on this point. Most people frankly concede their inability to do so. To leave them with such a guess is to leave them with nothing at all.

### Aggravating Public Apprehension

The attempt to reassure the public by this kind of statement is also self-defeating. The audience quickly perceives two things: first, that the speaker has no real confidence in his prediction, and second, that the situation can't really be secure or he wouldn't feel the need to reassure them about it. These implications, though unspoken, are the thoughts that really make an impression.

If he concludes his statement in terms of the reasons why we should be confident, he makes matters still worse. Since confidence is held to be so important, the danger of someone's losing it is felt to pose a real threat. Whatever apprehension the public may have had is therefore aggravated.

If, furthermore, the talk of a few pessimists could throw us into a depression, the situation would be black indeed. Fortunately, views like those expressed in the quotations above are mistaken.

The fact is that neither the talk of those trying to influence the outcome nor the theories of business confidence underlying such attempts are of much significance to the outlook. What actuates business is not what people think but what they do. And what produces confidence is not what someone tells them, but what happens.

Even if they should lose confidence for a while, it doesn't greatly affect the basic determinants of business activity. They have to go on living and doing, and until they're really hurt, they pretty well maintain the pace of activity, as the experience of the postwar years has repeatedly shown. Subsequently, as the threat wanes, there is a rebound. Any movement arising solely from such a shift in sentiment will be both moderate and short-lived.

On the other hand, even if people maintain confidence after a decline based on more fundamental economic forces gets under way, their hopeful expectations won't stem the tide for more than a brief interval. Thereafter, for a time, the situation will probably be worsened; for their confidence will be dissipated as the facts become apparent, and whatever contribution it has made will be shifted to the opposite side.

There is no need, in other words, to get jittery when we are cautioned about the possibility of losing our heads. All it means is that someone is trying to relieve his own fears, like the little boy who whistles in the dark. The irony of it is that, in telling us there is no danger of a serious depression in 1954, he happened to be right all the time.

VLB



## BURIAL CASKET MANUFACTURERS

The manufacture and distribution of burial caskets, one of our oldest industries, has remained up to the present time one of small local business. Even the largest groups of affiliated companies rarely serve areas outside a radius of 200 to 300 miles.

The explanation for this does not lie in the lack of initiative on the part of manufacturers and distributors but is inherent in the industry itself. Large-scale operations in casket production are practically ruled out by a number of factors. One of the most important of these factors is the size and weight of the industry's products which make long-distance shipping prohibitively expensive. This limits the firm's market area, and sales are rigidly restricted by the mortality within that area. Mortality is, itself, an overstatement of potential sales. Historically, casket sales have varied from as high as 99.5 percent of mortality in 1950 to as low as 88.5 percent in 1952. The difference is largely made up of burials without caskets or with caskets made other than commercially.

### Wide Variety of Caskets Produced

Another factor making small-scale production a necessity is the diversity of caskets produced. Caskets may be made of a variety of materials and vary in design according to the preferences of religious, racial, and economic groups. As a result, large-scale production is uneconomical because of the large inventories that would be necessary to keep the many different types of caskets in stock.

A burial casket consists of a shell or body, a covering or finish, handle hardware, upholstery, and the interior lining. Each of these parts can be made of any of a number of materials and in a multitude of shapes. The shell, for instance, may be made of one of a number of species of softwood or hardwood, of ferrous or non-ferrous metal, or of several varieties of plastic. Each shell is subject to change by cutting the top or side and by the application of distinctive base or ledge moldings. The entire ranges of color, weave, and embossing are used in textile coverings while several different types of enamel, varnish, or lacquer may be used as finish. Ornamentation, both outside and inside, such as handle hardware, trim, and upholstering materials may be varied in an almost infinite number of ways.

Sales for the post-World War II years indicate a definite trend toward the purchase of more elaborate and more expensive caskets. Higher quality metal caskets have, for example, grown from 13 percent of total unit shipments in 1946 to 26 percent in 1952. Preliminary figures for 1953 indicate that this percentage rose to between 30 and 32 in that year.

### Production and Distribution

One of the most interesting aspects of the casket manufacturing industry is the large amount of cross-distribution which takes place on all wholesale levels. One plant may produce cloth-covered wooden caskets

from knocked-down wood shells purchased elsewhere. Another producer may fabricate his cloth-covered wood caskets from the rough lumber and supplement his offerings to funeral directors by purchasing metal shells which he merely lines and trims.

There are some 500 or 600 firms engaged in the production and distribution of caskets. Approximately 400 of these manufacture one or more kinds of caskets. Roughly 10 percent of the manufacturers distribute caskets in varying stages of fabrication exclusively to other manufacturers for finishing, lining, and trimming. The other 90 percent distribute at least part of their production directly to morticians; the rest may go to other manufacturers, to branch outlets, or to independent wholesalers. In addition to these, there are up to 200 firms who are for the most part distributors or jobbers and who perform few, if any, manufacturing operations. Many of the latter group are one- or two-man operations which have no business office distinct from the operator's home.

Since funeral directors are increasingly dependent on replacing caskets in stock only on the basis of actual use, often only one at a time, exceptionally prompt deliveries and otherwise above-average service is mandatory for both manufacturers and wholesale distributors.

### Illinois Manufacturers and Distributors

Illinois ranks fourth among the states in the manufacture of morticians' goods, which include, in addition to caskets, such items as burial garments and embalming equipment. There are 45 firms engaged in the manufacture of morticians' equipment, at least 29 of which are primarily engaged in manufacturing caskets. In addition, it has been estimated that there are from 15 to 30 independent jobbing enterprises and from 8 to 10 casket hardware manufacturers in the State.

Production in Illinois plants, as in the industry in general, varies greatly, with some establishments producing the whole casket from the rough lumber or sheet metal to the finished product and others buying partly fabricated caskets and finishing, trimming, and upholstering them.

The average Illinois firm employs from 30 to 40 persons with manufacturing establishments usually employing from 20 to 75 workers and distributors employing from 1 to 10. Over three-fourths of the workers in the industry are production workers and the remainder are salesmen, supervisory workers, and clerical personnel.

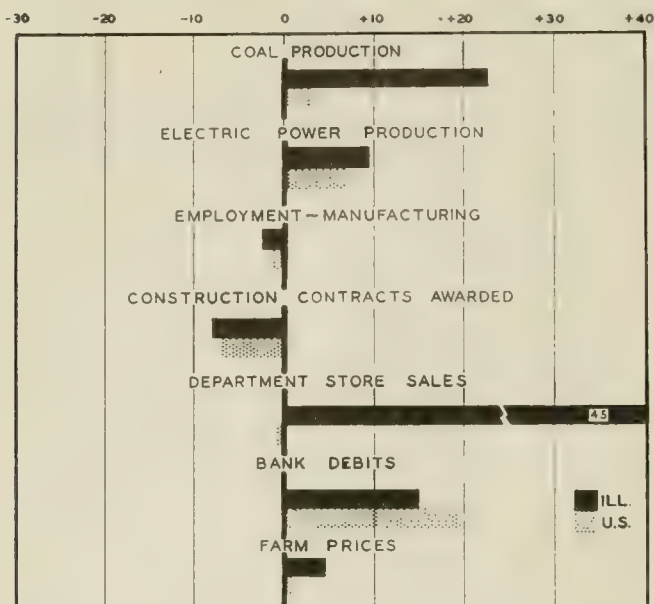
Although average hourly earnings in the casket industry are somewhat below those of manufacturing as a whole, employment by the very nature of the industry is much less subject to cyclical fluctuations than is manufacturing employment in general. Production during the depression years from 1929 to 1933 dropped by only an insignificant quantity, less, in fact, than did mortality. Limits on the upside are almost as rigid, since deaths tend to increase more slowly than population. Operations in the future should therefore continue to display the same stability that has characterized the industry in the past.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes November, 1953, to December, 1953



## ILLINOIS BUSINESS INDEXES

Item	December 1953 (1947-49 = 100)	Percentage Change from	
		Nov. 1953	Dec. 1952
Electric power <sup>1</sup> .....	184.4	+ 9.3	+13.6
Coal production <sup>2</sup> .....	102.2	+22.5	+ 7.7
Employment—manufacturing <sup>3</sup> ...	106.2	- 2.5	- 4.4
Payrolls—manufacturing.....	n.a.		
Dept. store sales in Chicago <sup>4</sup> ....	108.0 <sup>a</sup>	0.0	- 1.8
Consumer prices in Chicago <sup>5</sup> ....	116.4	0.0	+ 1.6
Construction contracts awarded <sup>6</sup>	153.9	- 7.9	+23.4
Bank debits <sup>7</sup> .....	157.8	+15.1	- 0.8
Farm prices <sup>8</sup> .....	102.4	+ 4.8	- 0.4
Life insurance sales (ordinary) <sup>9</sup> ..	168.6	+15.2	+10.5
Petroleum production <sup>10</sup> .....	95.7	+ 3.6	+ 1.0

<sup>1</sup> Federal Power Commission; <sup>2</sup> Illinois Department of Mines; <sup>3</sup> Illinois Department of Labor; <sup>4</sup> Federal Reserve Bank, 7th District; <sup>5</sup> U. S. Bureau of Labor Statistics; <sup>6</sup> F. W. Dodge Corporation; <sup>7</sup> Federal Reserve Board; <sup>8</sup> Illinois Crop Reports; <sup>9</sup> Life Insurance Agency Management Association; <sup>10</sup> Illinois Geological Survey.  
<sup>a</sup> Seasonally adjusted. n.a. Not available.

## UNITED STATES MONTHLY INDEXES

Item	December 1953	Percentage Change from	
		Nov. 1953	Dec. 1952
Personal income <sup>1</sup> .....	Annual rate in billion \$ 284.7 <sup>a</sup>	- 0.4	+ 1.5
Manufacturing <sup>1</sup> .....			
Sales.....	289.2 <sup>a</sup>	- 0.8	- 2.4
Inventories.....	46.7 <sup>a,b</sup>	- 0.4	+ 5.7
New construction activity <sup>1</sup> .....			
Private residential.....	11.4	- 7.0	+ 1.1
Private nonresidential.....	11.5	- 7.0	+12.1
Total public.....	9.0	-19.6	- 0.3
Foreign trade <sup>1</sup> .....			
Merchandise exports.....	14.9 <sup>c</sup>	- 0.6	+ 4.2
Merchandise imports.....	10.2 <sup>c</sup>	+ 4.4	+ 5.4
Excess of exports.....	4.7 <sup>c</sup>	- 9.9	+ 1.8
Consumer credit outstanding <sup>2</sup> .....			
Total credit.....	28.9 <sup>b</sup>	+ 2.3	+11.9
Installment credit.....	21.8 <sup>b</sup>	+ 1.0	+16.7
Business loans <sup>2</sup> .....	23.4 <sup>b</sup>	+ 1.1	- 0.0
Cash farm income <sup>3</sup> .....	36.0	-14.0	+ 1.9
Indexes (1947-49 = 100)			
Industrial production <sup>2</sup> .....			
Combined index.....	127 <sup>a</sup>	- 1.6	- 4.5
Durable manufactures.....	143 <sup>a</sup>	- 2.1	- 5.9
Nondurable manufactures.....	114 <sup>a</sup>	- 1.7	- 3.4
Minerals.....	111 <sup>a</sup>	0.0	- 5.1
Manufacturing employment <sup>4</sup> .....			
Production workers.....	105 <sup>a</sup>	- 1.8	- 4.6
Factory worker earnings <sup>4</sup> .....			
Average hours worked.....	101	+ 0.3	- 3.8
Average hourly earnings.....	135	0.0	+ 3.5
Average weekly earnings.....	135	+ 0.3	- 0.5
Construction contracts awarded <sup>5</sup>	170	- 6.8	-11.4
Department store sales <sup>2</sup> .....	112 <sup>a</sup>	- 0.9	- 2.6
Consumers' price index <sup>4</sup> .....	115	- 0.1	+ 0.7
Wholesale prices <sup>4</sup> .....			
All commodities.....	110	+ 0.3	+ 0.5
Farm products.....	95	+ 0.9	- 4.7
Foods.....	104	+ 0.5	0.0
Other.....	115	+ 0.1	+ 1.5
Farm prices <sup>3</sup> .....			
Received by farmers.....	94	+ 1.2	- 6.3
Paid by farmers.....	112	+ 0.4	- 1.1
Parity ratio.....	91 <sup>d</sup>	+ 1.1	- 5.2

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for November, 1953; comparisons relate to October, 1953, and November, 1952.  
<sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1954					1953
	Jan. 30	Jan. 23	Jan. 16	Jan. 9	Jan. 2	Jan. 31
Production:						
Bituminous coal (daily avg.).....thous. of short tons..	1,396	1,402	1,363	1,365	1,358	1,535
Electric power by utilities.....mil. of kw.-hr.....	8,855	8,976	9,014	8,825	8,198	8,144
Motor vehicles (Wards).....number in thous....	133.1	137.7	139.3	143.4	86.4	141.1
Petroleum (daily avg.).....thous. bbl.....	6,159	6,195	6,236	6,189	6,100	6,400
Steel.....1947-49=100.....	112.2	109.9	110.3	111.9	106.2	139.5
Freight carloadings.....thous. of cars.....	628	617	620	624	478	698
Department store sales.....1947-49=100.....	85	86	85	94	81	86
Commodity prices, wholesale:						
All commodities.....1947-49=100.....	110.9	110.9	110.9	110.4	110.6	109.9
Other than farm products and foods..1947-49=100.....	114.5	114.5	114.5	114.5	114.5	113.1
22 commodities.....1947-49=100.....	87.5	87.7	88.6	88.5	89.0	88.7
Finance:						
Business loans.....mil. of dol.....	22,502	22,686	22,846	22,942	23,380	23,011
Failures, industrial and commercial..number.....	233	208	200	202	150	162

Source: Survey of Current Business, Weekly Supplements.



# RECENT ECONOMIC CHANGES

## Business Inventories Decline

Businessmen reduced their inventories somewhat during December. Book values of manufacturing and trade inventories together dropped \$200 million to \$81.0 billion (seasonally adjusted). But this was still substantially above their level in the same month a year ago.

Manufacturers' inventories were down \$180 million during the month to \$46.7 billion. All of this decline occurred in stocks of durable goods. Wholesalers' inventories declined from \$11.9 billion in November to \$11.7 billion in December. Retail stocks, although down sharply before adjustment for seasonal variation because of holiday buying, were actually higher after allowance for the normal seasonal movement. They increased \$200 million during the month to \$22.6 billion.

In relation to sales, inventories in December amounted to 1.7 months' sales, a little higher than the inventory-sales ratio a year ago.

## Liquid Saving Continues Advance

Individuals added \$3.3 billion to their liquid saving during the third quarter of 1953. The increase was about the same as in the second quarter but nearly \$2 billion below the third quarter of 1952. Even so liquid saving for the first nine months of 1953 was \$300 million above the same period of 1952.

Although total liquid saving in the third quarter was almost unchanged from the preceding quarter, its composition differed markedly. Bank deposits and currency holdings, which increased \$600 million in the second quarter, were up \$1.6 billion in the third. Purchases of new securities declined to \$600 million, about half the second quarter rate. Purchases of shares in savings and loan associations were reduced from a \$1.1-billion rate in the second quarter to \$600 million in the third.

Mortgage debt, an offset to liquid saving, moved up at about the same rate as in the previous quarter (\$1.6 billion), but expansion of consumer installment indebtedness slowed considerably, from a rate of \$1.2 billion in the second quarter to only \$500 million in the third.

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## Unemployment Still Rising

Unemployment continued to move upward in January, rising 1.2 million to 3.1 million. This was higher than the jobless total in January of the two previous years but below or about the same as unemployment for the month in other prosperous postwar years.

The increase reflected in large part seasonal forces usually operating at this time of year. Both construction and agricultural activity were at a seasonal standstill during the month and employment in retail trade declined from the holiday-season peak. Some marginal workers, particularly housewives and part-time workers in trade, left the labor force in January, but the civilian labor force rose nevertheless as many of those laid off continued to look for work. Census data in thousands of workers are as follows:

	January 1954	December 1953	January 1953
Civilian labor force.....	62,847	62,614	62,700
Employment.....	59,753	60,764	60,800
Agricultural.....	5,284	5,438	5,825
Nonagricultural.....	54,469	55,326	54,975
Unemployment.....	3,087	1,850	1,900

Aside from seasonal factors, further declines in manufacturing employment contributed to the January increase in the number of unemployed. As shown by the accompanying chart manufacturing employment declined rapidly throughout the final quarter of 1953, as production was cut back to curtail inventory growth. Also reflecting the curtailment of production toward the end of 1953 is the decline in the workweek. After settlement of the steel strike in mid-1952, many manufacturing industries worked overtime to meet expanded sales and to replenish inventories. With inventories high and defense orders declining toward the end of 1953, the workweek was steadily reduced, falling from a post-Korean peak of 41.7 hours in December, 1952, to 40.1 hours in December, 1953.

Hourly earnings, on the other hand, advanced to a record \$1.79 during the year, partially offsetting declines in the length of the workweek. As a result, factory workers' weekly earnings of \$71.78 in December were only 36 cents below the record high of December a year ago.

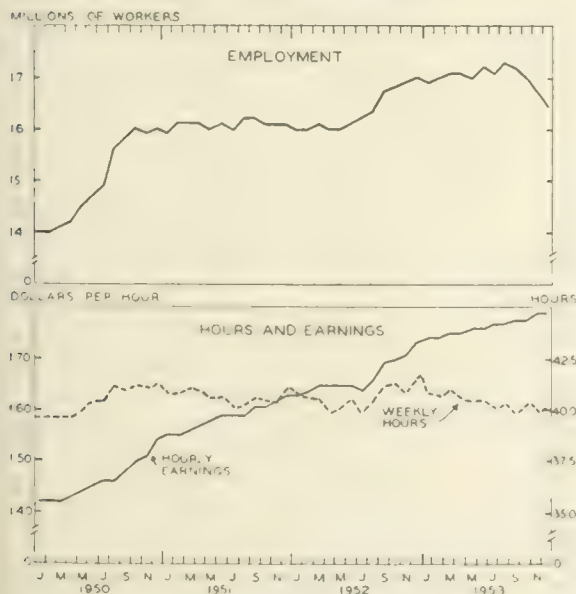
## Home Ownership Increases

A greater proportion of Americans own their homes today than at the turn of the century. But the family homestead is also more likely to be mortgaged. This is the long-term trend indicated by Census data on home ownership and mortgages.

In 1890 less than 40 percent of the nation's dwelling units were owned by their occupants; the remainder were occupied by renters. By the late 1920's almost half of existing nonfarm dwellings were owned by the occupants. The trend toward home ownership was reversed during the depressed thirties, so that by 1940 the proportion of owner-occupied homes was back to 40 percent. During the war, however, the upward trend was resumed, and at present 57 percent of all nonfarm homes are owned by the people who live in them.

Increased home ownership reflects in part greater willingness of prospective homeowners to go into debt, and the improved mechanism of the mortgage market. In

## MANUFACTURING EMPLOYMENT, HOURS, AND EARNINGS



Source: Bureau of Labor Statistics.

the late 1800's, only 25 percent of owned homes were mortgaged. By 1920 almost 40 percent of owner-occupied dwellings were mortgaged, and currently the proportion is up to 45 percent, about the same as before the war.

## Personal Income Falls Further

Personal income continued its downward drift in December. The decline from November, amounting to about \$1 billion, was mainly the result of further reductions in factory payrolls. Partially offsetting these reductions were increases in unemployment insurance benefits and in farm income, each up by more than a half billion dollars. At a seasonally adjusted annual rate of \$285 billion, personal income in December was \$4 billion higher than at the end of 1952.

For the year as a whole, personal income totaled \$284.5 billion, 6 percent higher than in 1952. Proprietors' income and farm income were the only major categories to fall below the 1952 level.

During the first half of the year income expanded to a peak annual rate of \$287.5 billion in July. After July, factory employment and payrolls declined, and personal income dropped 1 percent between July and December. By year-end, factory payrolls were off 6 percent from midyear and were slightly below December, 1952.

## Consumer Credit Expansion Slows

Consumer credit outstanding moved up in December by \$600 million to a new high of \$28.9 billion. The increase included a \$400-million advance in noninstallment credit, almost entirely accounted for by charge account indebtedness, and a \$200-million expansion in installment credit. In December, 1952, consumer credit expanded more than twice as much.

Since the end of World War II consumer credit outstanding has risen phenomenally. In December, 1945, the total outstanding amounted to \$5.7 billion compared with last December's \$28.9 billion. Less than half of the 1945 figure was accounted for by installment loans. However, the great bulk of the postwar expansion in consumer indebtedness has been in this form, reflecting the large volume of automobiles, appliances, and other consumer

durables purchased in the postwar period. By the end of 1953 installment credit accounted for three-fourths of total consumer credit.

During 1953, demand for installment loans began to taper off. As shown by the accompanying chart, new credit extended (seasonally adjusted) reached a peak of \$2.7 billion in March and has declined more or less steadily since. Repayments, determined mainly by loans extended in previous months and the terms of repayment, continued to rise throughout the year. As a result, the rate of increase in installment credit outstanding (the difference between new credit extended and repayments) has fallen rapidly. In December installment credit outstanding advanced by only \$48 million, after seasonal adjustment. This was the smallest monthly change since March, 1952, shortly before credit restrictions were lifted by the Federal Reserve Board.

## Profits Expand

Profits before taxes of manufacturing corporations were \$3.0 billion higher in the first three quarters of 1953 than in the same quarters of 1952. Higher tax liabilities on the increased earnings, however, trimmed the after-tax gain to about \$1 billion. Profits after taxes totaled \$8.7 billion compared with \$7.8 billion in the first three quarters of the previous year.

Third quarter profits were 11 percent above their level in the same quarter of 1952. Much of this gain, however, is attributable to the low level of activity during the third quarter of 1952 when industrial operations were sharply curtailed by the steel strike. Relative to the second quarter of 1953, third quarter profits were down about 5 percent as manufacturers' sales fell about 3 percent.

Cash dividend payments for industry as a whole amounted to \$8.5 billion in 1953, almost 3 percent above 1952. Manufacturing corporations' disbursements were up 1.6 percent to \$4.6 billion whereas dividends paid out by nonmanufacturing corporations increased 4 percent to \$3.9 billion.

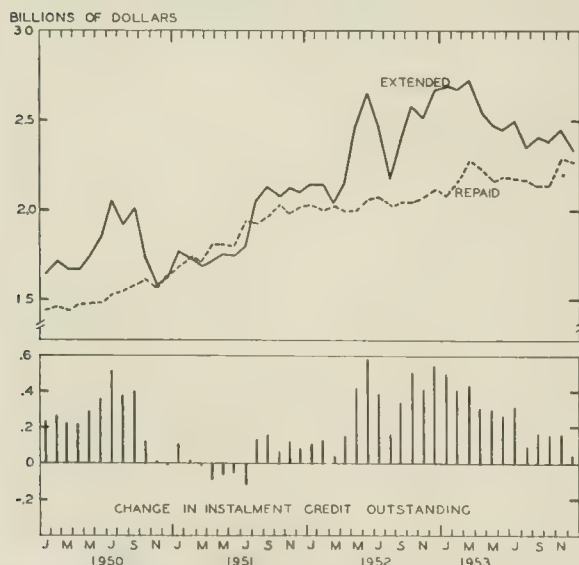
## Foreign Investment Earnings Up Slightly

Earnings on United States foreign loans and investments amounted to \$2.7 billion in 1952. The increase in earnings over 1951 was small—only \$70 million—compared with the half-billion-dollar advance that occurred in 1951, and the substantial increases prevailing in most other postwar years. However, this country's foreign investments continued to pay off handsomely in 1952, as earnings were nearly 50 percent above average earnings for the six postwar years prior to 1952.

Earnings on direct investments abroad advanced \$44 million to \$2.3 billion and accounted for 85 percent of total earnings in 1952. The increase was the result of substantially higher earnings by the petroleum industries, which were largely offset by lower earnings in agriculture, manufacturing, and mining and smelting industries. The earnings drop in these industries may be attributed in part to price declines of some basic commodities coupled with higher taxes and other costs, high exploratory expenses, and moderate cutbacks in production in some countries. A further factor, according to the Department of Commerce, is that many foreign enterprises owned or controlled by American investors have not yet reached the production and earnings stage.

More earnings were retained abroad in 1952 than in 1951, so that earnings transferred to this country declined about 16 percent, to \$1.8 billion.

**INSTALLMENT CREDIT**  
(Seasonally adjusted)



Source: Federal Reserve Board.



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Wages and Related Benefits

A study of occupational wages and related benefits in 20 important labor markets (encompassing over a fourth of the population of the country) disclosed that pay levels were highest during 1952-53 in the San Francisco-Oakland area, followed closely by Chicago and Los Angeles. Such items as paid vacations, paid holidays, insurance and pension plans, and rates of pay for overtime work are included in the section on related wage benefits.

The report shows occupational data for more than fifty classifications of office, maintenance, power plant, custodial, warehousing, and shipping jobs. It also includes an analysis of occupational wage relationships in the public utilities and manufacturing industries. Entitled *Wages and Related Benefits, 20 Labor Markets 1952-1953*, the bulletin is available from the Superintendent of Documents, United States Government Printing Office, Washington 25, D. C., for 55 cents.

### Heat-Resistant Tape

A new type of masking tape designed for use in temperatures up to 325 degrees has been perfected by the Minnesota Mining and Manufacturing Company, St. Paul 6, Minnesota. Called "Scotch" brand high temperature masking tape No. 214, the new product is capable of withstanding much longer bake cycles than previously possible and can be removed from treated metal surfaces without leaving any adhesive deposit, according to the maker. Aircraft assembly, engine, and parts manufacturers should find the new tape useful for high-heat masking on treated metals; and electronics manufacturers and others in the metal finishing trade may also have use for this pressure-sensitive tape. It is distributed nationally in 1/4- to 36-inch widths on 60-yard rolls and can be die-cut according to customer specifications.

### Veterans Benefits and Per Capita Income

Payments to veterans have tended to equalize per capita income among the states, according to a study by Howard G. Schaller. Published in the November, 1953, issue of *The Review of Economics and Statistics*, the study shows that relative differences in per capita income among the states were reduced 5 percent in 1949 as a result of G. I. Bill payments and pensions and by 1 percent in both 1929 and 1939 as a result of veterans pensions. Moreover, veterans transfer payments have done a great deal toward offsetting relative differences in manufacturing wages, which in 1947 caused a 6 percent increase in the relative differences in state per capita income.

This equalization tendency of veterans benefits is not the result of any unequal distribution of veterans among the states. Rather it is due to a larger proportion of veterans in the lower income states who took advantage of the G. I. Bill, and to higher average annual payments per recipient in these states.

### New Type Dictating Machine

The first commercial office dictating machine to use the principle of magnetic recording has been developed by Peirce Dictation Systems and the Armour Research Foundation of the Illinois Institute of Technology in

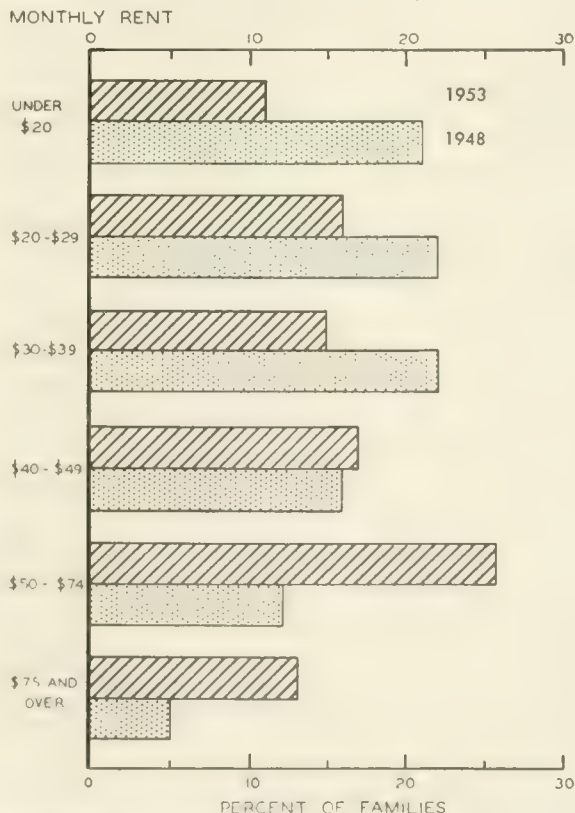
Chicago. Since the recording is done magnetically, surface noises which resulted from the stylus used in other transcribing systems have been eliminated. The machine uses neither wire nor tape, but an endless belt that can be used over and over. The belt holds 15 minutes of speech and can be mailed or filed flat. Although it was once considered impossible to produce a lightweight, compact, and simple-to-use dictation machine based on the magnetic recording principle, scientific research has overcome the obstacles and produced the present machine.

### Rent Costs

The average rent paid by nonfarm families increased 42.4 percent during the past five years—from \$33 per month in early 1948 to \$47 in early 1953—according to the latest Survey of Consumer Finances. Last year four out of ten renting families paid \$50 or more a month for their homes whereas fewer than two families out of ten paid that amount in 1948 (see chart). Relaxation of controls, rising construction and maintenance costs, and strong demand were primarily responsible for the increase.

The number of families renting homes increased from 17 million in early 1948 to nearly 19 million in early 1953. Factors causing the upswing include high marriage and birth rates and a rise in income which has permitted more families to maintain separate households. Also, the population growth of large cities where rental housing is generally more readily available than in smaller communities has been an important factor.

RENTS PAID BY NONFARM FAMILIES  
(Percentage distribution)



Source: *Federal Reserve Bulletin*, August, 1953.

# THE FEDERAL BUDGET FOR 1955\*

ORRIS C. HERFINDAHL,  
Committee for Economic Development

The new budget for the Federal government is receiving an especially close examination. It is the first budget to be prepared by the Eisenhower administration; the budget for 1954 had been prepared under former President Truman. A year in office has given the new administration a chance to get the Executive machinery under its control and to clarify its position on many matters of policy. The budget and its related messages therefore permit a much clearer view of the Administration's program than has been possible before.

The changes proposed for the fiscal year 1955 (ending June 30, 1955) do not greatly alter the nature of the government's activities in the short run. The important question is the significance of this and subsequent budgets over a longer period. The 1955 budget represents decisions that may involve survival itself. It indicates the extent of governmental responsibility and activity in areas affecting all groups in our society, and it provides the Administration's solution to the problem of balancing the budget, cutting expenditures, and reducing taxes.

Summary data showing the budget plan for receipts and expenditures are shown in the accompanying table. Under this plan, the deficit in the administrative budget is reduced from \$9.4 billion in 1953 to \$2.9 billion in 1955.

## Effects on Government Programs

The arithmetic of the deficit is easy to understand, but a harder problem is to appraise the accompanying changes in services provided by the government. The expenditure reduction is concentrated on national security. These expenditures will be cut by \$1.6 billion from 1953 to 1954, and by \$3.9 billion from 1954 to 1955. The total next year will be \$45 billion.

The budget itself is silent on many aspects of the new program, but some information is provided. Military personnel, now at 3.4 million, will be cut to 3 million by the end of fiscal 1955, with most of the cut in the Army. Aircraft procurement will remain at about the same level from 1954 to 1955, but other types of major procurement will be cut by \$2.6 billion. Atomic energy expenditure will rise by about 10 percent to \$2.4 billion. These and other changes, we are told, mean greater emphasis on airpower, improved continental defense, and full exploitation of modern weapons.

The budget does not directly indicate the effects that these changes in the national security program will have on military strength. But this and related questions will have to be given some attention by the Administration in the coming months—before Congressional committees if nowhere else. Some light will have to be thrown on the question of whether the decision to cut expenditures and taxes dominated the decision to alter the military program, or whether the consequences of reducing the security budget were carefully weighed against the advantages of reducing taxes. There will also be a demand for more information on the meaning of the program for defense against air attack. Continental defense is to be improved, but it is not yet clear to what extent. Recent statements

\*The views expressed in this article are those of the author and do not necessarily reflect those of the Committee for Economic Development.

about greater reliance on retaliatory power make the question even more insistent.

Most of the choices in the defense program must be left to the experts, but some of the broader choices, for example, the total size of defense expenditure, can be made only through the political process. They should be made in the light of the probable consequences attached to the various courses of action open to us.

In the remainder of the expenditures side of the budget there are a few large changes in dollars to be spent in 1955 and some policy changes which, if adopted, will be of increasing importance as time goes on. It is clear that there has been a general and persistent pressure toward retrenchment. Most agencies have not been cut by large amounts, but small reductions are general.

International Affairs and Finance shows a reduction of half a billion. Half of this is in the economic and technical development program, which will also show greater emphasis on Asia, Africa, and Latin America. The other half comes from the Export-Import Bank, whose receipts will rise relative to expenditures.

The main change in Housing and Community Development involves the Federal National Mortgage Association, which will be selling more and buying fewer mortgages. Decreases in expenditure of this type, which involve a net reduction in holdings of certain assets, must be reversed at some time in the future because the assets held are limited in quantity.

The expenditure estimates for Agriculture show little change except for disaster loans and the agricultural conservation program. The main issue of policy in the agricultural program, revision of the price-support program, was the subject of a special message and is not reflected in the expenditure estimates.

Transportation and Communication shows a decline in expenditure of \$400 million from 1954 to 1955. The bulk of this large change involves the Post Office deficit, with recommended increases in postal rates making up most of this total.

So far as other expenditures are concerned, the existing programs are not greatly altered. One important exception, however, is the proposal to increase coverage and raise benefits under both the old age and survivors insurance and the unemployment compensation programs. This exception alone should be enough to discourage a conclusion that increase in non-defense spending has been brought to a halt. Over the coming years growth of

FEDERAL BUDGET, FISCAL YEARS 1953-55  
(Billions of dollars)

	1953	1954	1955
Administrative budget:			
Expenditures.....	\$74.0	\$70.9	\$65.6
Receipts.....	64.6	67.6	62.6
Deficit in administrative budget.....	-9.4	-3.3	-2.9
Cash budget:			
Payments to the public.....	76.6	75.2	70.7
Receipts from the public.....	71.3	74.9	70.8
Deficit (-) or surplus (+) in cash budget.....	-5.3	-.2	+.1



population will necessitate an increase in some expenditures, and it is likely that increased incomes will bring a rise in the demand for government services as well as for the products of private enterprise.

The fact that the expenditures budget has not been greatly changed except for national security does not mean that the effects of governmental activity will remain the same. A series of small changes in policy can add up to a significant package, and it must be remembered that there is room for wide shifts in some policies without any significant effect on expenditures.

## Revenue Changes

The reduction in the deficit is the result of these expenditure cuts combined with smaller reductions in receipts. Receipts would be reduced under existing legislation, which provides for elimination of the excess profits tax and for cuts in the individual income, corporate income, and excise taxes, by \$6.0 billion from 1954 to 1955. The proposed 25-point tax reform program would reduce receipts in 1955 by another \$1.2 billion. These reductions are offset in part by the proposed restoration of the April 1 cuts in the excise and corporate income tax rates, which would increase 1955 receipts by \$2.3 billion. The net effect of the whole program is to reduce the administrative deficit by \$6.5 billion from 1953 to 1955 and by \$300 million from 1954 to 1955.

The efforts of the Administration to formulate a program of tax reform have been hampered by the necessity of raising revenue to cover a still high level of expenditures. The result is that most of the changes are minor in their effects on revenues, although some will assume greater importance as they come into full operation.

The President's proposed 25-point tax revision program includes, among other things, a modification in the treatment of a dependent's earnings and exemption to eliminate the jump in the income tax bill when his earnings pass the \$600 mark. Limited deduction of expenses for child care would be permitted, and the provisions on medical expenses would be liberalized.

Two other changes are of great importance because of their possible effects on incentives to invest. A start is made toward elimination of "double taxation" of corporate dividends (the corporation now pays tax on its income and the stockholder pays on corporate income that is distributed) by allowing the individual a \$100 exemption for dividends plus a tax credit of 15 percent for dividends over \$100. This privilege would go into effect in a series of steps, coming into full operation in 1957.

The treatment of depreciation would be modified by permitting use of the declining balance method of computing the depreciation charge (applying a constant percentage to the undepreciated balance) at a rate not to exceed twice the percentage permitted under the straight-line method. Although total deductions over the life of the asset would still be limited to its initial value, depreciation charges would be tipped from later to earlier years, an effect that is important to many businesses.

Action has already been taken by the House Ways and Means Committee on many of the 25 recommendations, in some cases with minor changes. Chances are good that a large part of the President's tax program will be adopted. The prospects are also good that Congress will act to reduce receipts below the budget estimate by failing to rescind the April 1 tax cut, by cutting other excises, or by outdoing the liberality of the President in the 25-point program. After all, this is an election year.

## Deficit Policy

If all goes according to plan, the record of expenditure, tax, and deficit reduction will be a notable one. The President's recommendations provide for a deficit of only \$3 billion in the administrative budget and a balanced cash budget. These figures and related pronouncements give some clues to the Administration's deficit policy.

Does the Administration's program balance the budget? Clearly not, if the "budget" is the administrative budget. But the administrative budget does not cover the transactions of the trust funds, including taxes and payments for old-age pensions and unemployment compensation. If these are included and other adjustments are made to get totals of cash paid to and received from the public, the deficit picture is changed. The cash deficit of \$5.3 billion in 1953 will almost be eliminated in 1954. For 1955 the estimate shows a slight cash surplus.

One thing is clear. It is not the policy to balance the administrative budget every year regardless of the effects of this action. The President has written of a "reduced" deficit, and Secretary Humphrey has said that a too rapid movement toward a balanced budget might upset the economy. The present budget leaves two questions to be answered. Is the goal a balancing of the administrative or cash budget? And is the goal a balancing every year or only when economic activity is at a high level?

Although the cash budget is a better indicator of the economic effects of the government's fiscal operations, balance in the administrative budget always receives more attention. A vigorous attempt to change this preference is unlikely. As for balancing every year, it is clear from the Economic Report of the President that he would not insist on balancing either budget if economic activity and government revenues decline. Such action would only speed the contraction by taking more money out of the taxpayer's pocket, leaving him less to spend.

## Improving the Budget

An underlying theme of this budget is economy and efficiency in government. Two problems are involved here, the first being determination of the right levels for the different expenditure programs. The second is the execution of each program at the lowest possible cost.

A good budget is an indispensable tool for solving these problems. When an administration proposes to cut expenditures on a program, it should be possible to get an idea of how much of the cut represents a reduction in services provided and how much is the result of cutting the cost of providing the service. This budget, like its predecessors, inadequately describes what is being done. When a change is proposed, the effects of this action on the services provided are rarely explained in more than the most general terms. Similarly, a claim that the cost of certain services has been reduced must be taken on faith. In most cases the budget does not substantiate the claim, nor does it rest on documents that do.

Improving the information provided in the budget—a necessary condition for making a better selection of program levels—is a very complex problem and not one to be solved by hasty prescription or exhortation. Some progress has been made over the past several years, and this progress is continued in the present budget. It is to be hoped that the Administration will make a vigorous effort to change the budget to provide the information needed for determining how much to spend on each program and for making evident the record of efficiency.

# LOCAL ILLINOIS DEVELOPMENTS

Business activity in Illinois picked up seasonally during December and gained over the same month of 1952 as well. Electric power production, coal production, average weekly earnings, life insurance sales, and petroleum production were each higher than in either December, 1952, or last November. Only manufacturing employment, steel production, business loans, and department store sales were off more than 1 percent from a year ago.

## Building Permit Valuations Increase

The total valuation of building permits issued during 1953 in 20 of the larger Illinois cities increased more than 16 percent from 1952 (see chart). Although there were divergent trends within the State, the percentage change in most areas exceeded that for the total. However, large declines in some cities reduced the downstate total below that of Chicago.

Decatur reported the greatest increase in valuations, 122 percent. Heavy industrial expansion programs in both new and existing firms, annexations of territory to the city, extensive homebuilding, and the voting of bonds for interceptor sewers and school buildings accounted for much of the gain.

Belleville valuations were unusually large as the result of a new telephone building, several churches, a school, and the development of a new subdivision in 1953. New schools, some church additions, and commercial building

last year also contributed to the sizable increase in Elgin's building valuations.

Of the 20 cities shown, only four reported a decline in building permits. The main reason for the substantial drop in Aurora's valuations was a shortage of lots within the corporate limits of the city. Consequently the majority of new subdivisions are being established outside city limits and are not included in that city's building permits. Aurora also experienced a decline in commercial and industrial construction, since postwar expansion of industrial plants in the area has now largely been completed.

## Illinois Parity Ratio Rises

The all-commodity index of prices received by Illinois farmers on December 15 reached 263 (1910-14 = 100), up 5 percent from November but off fractionally from December, 1952. The index of prices paid in the United States stood at 278 on December 15, up slightly from November but 1 percent less than a year ago, causing the parity ratio—the ratio of prices received to prices paid—in Illinois to rise to 95. This was 4 points above November and 1 point higher than a year ago. The parity ratio for the nation as a whole was only 91 in December, 5 points below the same month in 1952, thus indicating that Illinois farmers had fared better price-wise in 1953 than farmers generally.

## Employment Declines

A contra-seasonal decline occurred in Illinois non-farm employment from November to December despite normal seasonal increases in wholesale and retail trade. Although every industry other than trade employed fewer workers in December than in November, manufacturing concerns reported the lowest level of employment for any month since September, 1952. Almost all of the reductions took place in the durable goods industries. This reversed a trend of the past several years which have witnessed sharply rising employment in hard goods each November-December period.

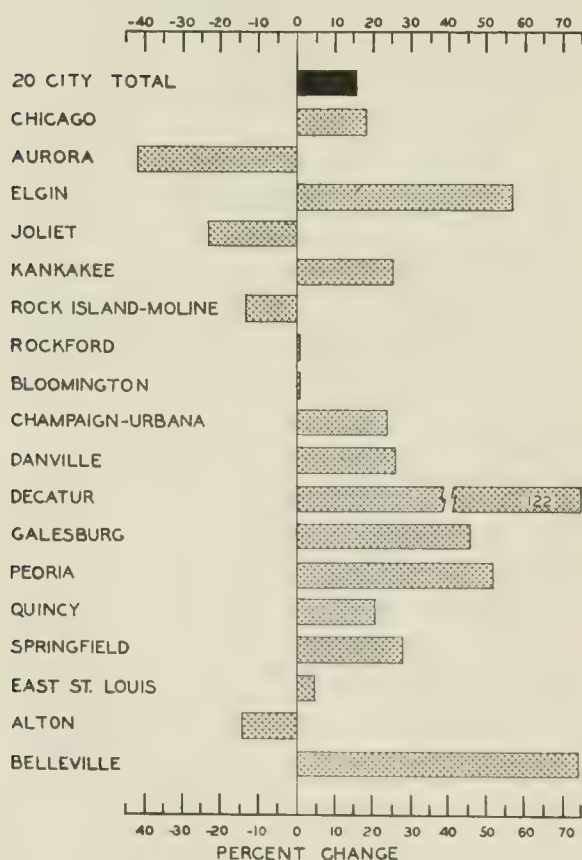
Total nonagricultural employment was almost 2 percent less in December than in the same month of 1952, with most of the loss occurring in the manufacturing industries. On December 15, the number of workers in nonmanufacturing firms was up fractionally from a year earlier because of higher employment levels in trade; finance, insurance, and real estate; and service and miscellaneous industries.

## Consumer Prices Rise in 1953

The Chicago consumer price index was unchanged from November to December as small increases for food, personal care, and miscellaneous goods and services were offset by declines in the cost of apparel and reading and recreation. No change was reported for housing, transportation, or medical care.

However, during the past year the index rose 1.6 percent to 116.4 (1947-49 = 100) in December. Miscellaneous goods and services (which include such items as tobacco, alcoholic beverages, legal services, banking fees, and burial services) increased most during the year, up 8 percent. Medical care rose 5 percent; housing, 4 percent; and apparel, 1 percent. Partially offsetting these gains were small declines in the cost of food, transportation, personal care, and reading and recreation.

VALUATION OF BUILDING PERMITS  
Percentage change, 1952 to 1953



Source: Bureau of Labor Statistics.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

December, 1953

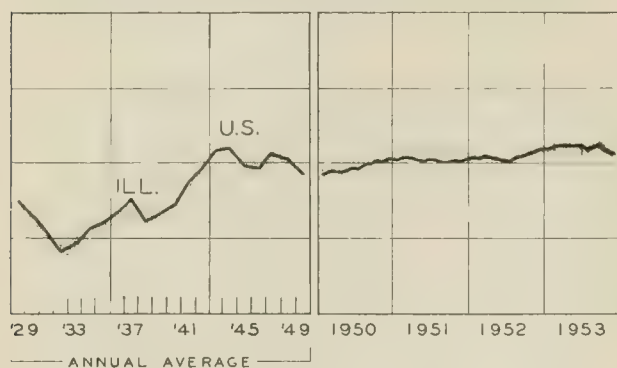
		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS...</b>							
		\$26,986 <sup>a</sup>	952,044 <sup>a</sup>	\$544,585 <sup>a</sup>		\$13,794 <sup>a</sup>	\$20,149 <sup>a</sup>
Percentage Change from	Nov., 1953...	+29.9	+1.7	-2.1	+45	+15.1	+34.9
	Dec., 1952	+162.5	-1.5	+1.2	-3	-0.8	+13.7
<b>NORTHERN ILLINOIS</b>							
<b>Chicago...</b>							
		\$22,718	737,634	\$401,678		\$12,644	\$17,337
Percentage Change from	Nov., 1953...	+35.4	+1.0	1.2	+45	+15.0	+31.0
	Dec., 1952	+188.9	-2.4	+2.3	-2	1.1	+14.4
<b>Aurora...</b>							
		\$ 24	n.a.	\$ 7,404		\$ 49	\$ 156
Percentage Change from	Nov., 1953...	-79.1		-5.6	+39	+0.8	+58.4
	Dec., 1952	-64.2		-3.0	-7	+1.1	+22.4
<b>Elgin...</b>							
		\$ 275	n.a.	\$ 6,281		\$ 32	\$ 145
Percentage Change from	Nov., 1953...	-43.3		+7.1	n.a.	+4.0	+18.0
	Dec., 1952	+38.9		+11.6		+7.1	+4.1
<b>Joliet...</b>							
		\$ 303	n.a.	\$12,943		\$ 66	\$ 171
Percentage Change from	Nov., 1953...	+7.4		-2.5	+42	+11.6	+90.6
	Dec., 1952	-31.9		-6.7	-1	+5.4	-10.6
<b>Kankakee...</b>							
		\$ 189	n.a.	\$ 5,249		n.a.	\$ 63
Percentage Change from	Nov., 1953...	+75.0		-9.4	n.a.		+67.7
	Dec., 1952	+243.6		-6.2			+13.2
<b>Rock Island-Moline...</b>							
		\$ 625	20,060	\$ 9,350		\$ 81	\$ 258
Percentage Change from	Nov., 1953...	+31.3	+8.6	-4.4	n.a.	+1.0	+73.6
	Dec., 1952	+52.8	+2.2	-5.0		-2.7	+11.6
<b>Rockford...</b>							
		\$ 531	32,028	\$16,883		\$ 147	\$ 338
Percentage Change from	Nov., 1953...	11.6	+1.1	-2.1	+60	+12.9	+79.5
	Dec., 1952	+63.9	+1.7	+6.9	-5	+2.7	+16.6
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington...</b>							
		\$ 177	6,969	\$ 5,217		\$ 63	\$ 119
Percentage Change from	Nov., 1953...	+7.3	+4.1	-12.5	n.a.	+16.5	+23.3
	Dec., 1952	+284.8	+7.2	-0.3		+21.6	+0.0
<b>Champaign-Urbana...</b>							
		\$ 143	9,160	\$ 7,290		\$ 56	\$ 153
Percentage Change from	Nov., 1953...	+2.1	+8.6	-5.3	n.a.	+10.5	+61.1
	Dec., 1952	+74.4	+5.7	+1.7		+10.9	+13.6
<b>Danville...</b>							
		\$ 241	9,042	\$ 6,118		\$ 42	\$ 99
Percentage Change from	Nov., 1953...	+50.6	+3.6	+0.5	+56	+6.1	+57.4
	Dec., 1952	+99.2	+7.2	-0.2	2	+0.6	+5.0
<b>Decatur...</b>							
		\$ 225	22,529	\$10,268		\$ 104	\$ 175
Percentage Change from	Nov., 1953...	-40.2	-4.8	-4.3	+47 <sup>c</sup>	+13.7	+79.6
	Dec., 1952	-15.7	+5.7	+9.0	0	+17.8	+11.5
<b>Galesburg...</b>							
		\$ 58	6,978	\$ 4,257		n.a.	\$ 58
Percentage Change from	Nov., 1953...	54.7	+6.0	-1.7	n.a.		+67.7
	Dec., 1952	+114.8	+8.3	+0.7			+1.1
<b>Peoria...</b>							
		\$ 367	42,958 <sup>c</sup>	\$16,079		\$ 191	\$ 404
Percentage Change from	Nov., 1953...	+64.6	+4.9	-6.4	+42 <sup>c</sup>	+2.8	+74.5
	Dec., 1952	+182.3	-5.3	-9.4	-7	-5.5	+7.8
<b>Quincy...</b>							
		\$ 71	7,318	\$ 4,803		\$ 37	\$ 100
Percentage Change from	Nov., 1953...	-60.8	+1.7	6.8	+32	+10.2	+32.9
	Dec., 1952	+255.0	+9.2	-0.1	5	+8.4	-7.2
<b>Springfield...</b>							
		\$ 512	27,805 <sup>c</sup>	\$12,466		\$ 106	\$ 320
Percentage Change from	Nov., 1953...	+143.8	+10.4	-6.1	n.a.	+21.1	+72.5
	Dec., 1952	+540.0	+4.7	-9.6		+10.8	+5.7
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis...</b>							
		\$ 66	12,567	\$ 9,131		\$ 139	\$ 123
Percentage Change from	Nov., 1953...	-53.2	+2.2	-5.8	n.a.	10.1	73.0
	Dec., 1952	+94.1	-1.4	1.4		-5.9	+16.0
<b>Alton...</b>							
		\$ 78	11,132	\$ 4,916		\$ 38	\$ 62
Percentage Change from	Nov., 1953...	-40.0	+4.0	-6.8	n.a.	+16.0	+79.8
	Dec., 1952	+6.8	1.3	-3.1		+7.6	+7.8
<b>Belleville...</b>							
		\$ 383	5,866	\$ 4,251		n.a.	\$ 70
Percentage Change from	Nov., 1953...	+424.7	+9.9	-7.4	n.a.		+80.3
	Dec., 1952	403.0	+8.1	-1.6			-3.7

<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for November, 1953, the most recent available. Comparisons relate to October, 1953, and November, 1952. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

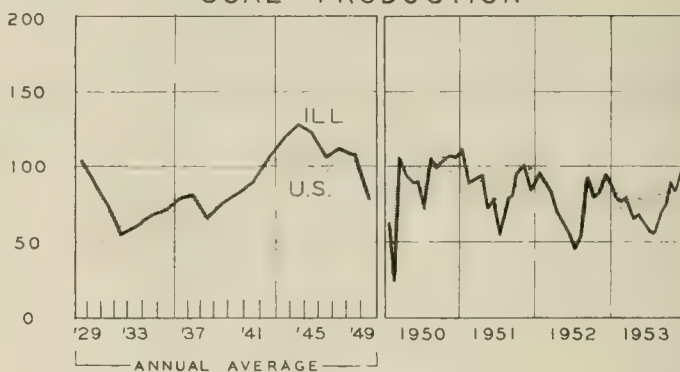
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

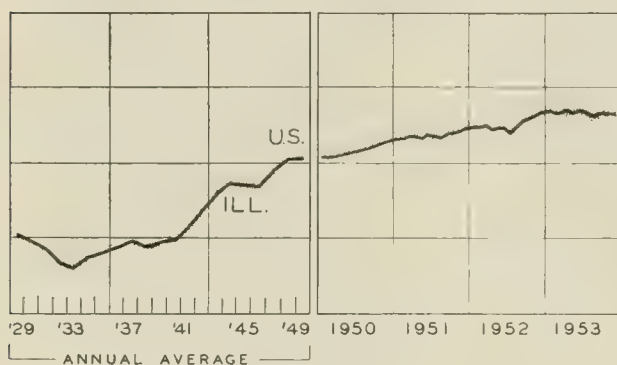
EMPLOYMENT - MANUFACTURING



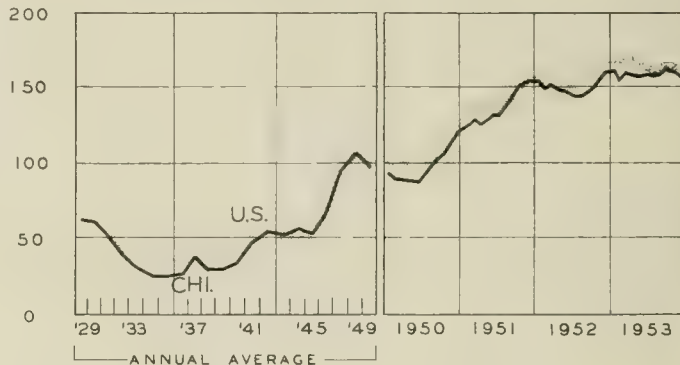
COAL PRODUCTION



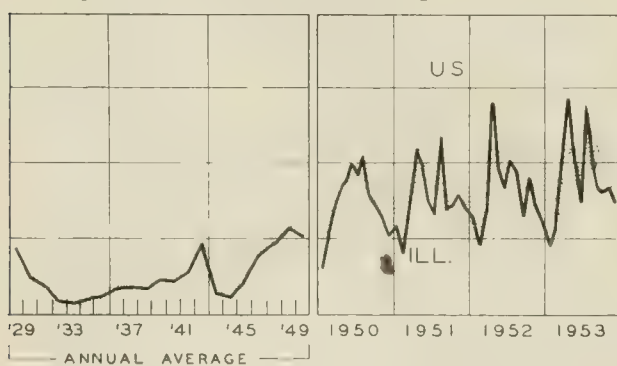
AVG. WKLY. EARNINGS - MANUFACTURING



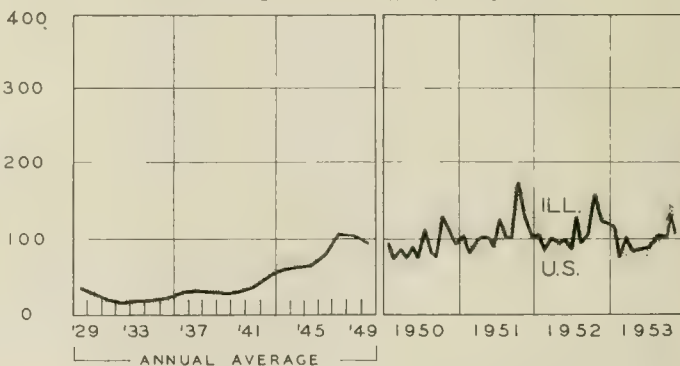
BUSINESS LOANS



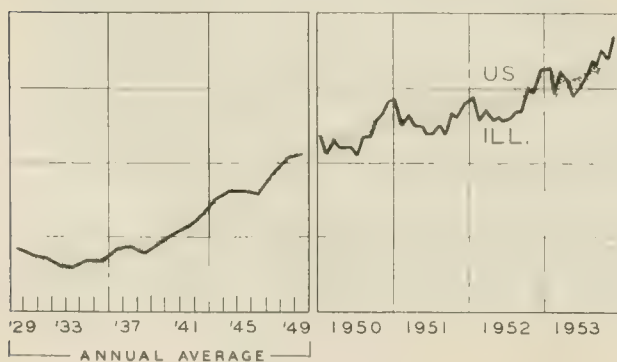
CONSTRUCTION CONTRACTS AWARDED



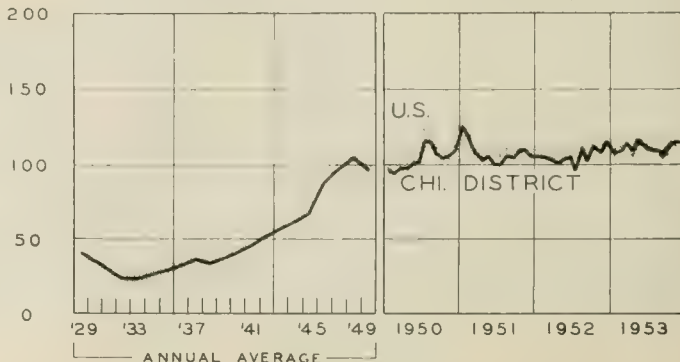
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

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## HIGHLIGHTS OF BUSINESS IN FEBRUARY

Business activity declined further in February. Retail sales registered a slight increase on a seasonally adjusted basis, but the Federal Reserve index of industrial production declined 1 point to 123 percent of its 1947-49 average. Bituminous coal production was down sharply as the mild winter weather reduced the demand for coal. Steel mill operations dropped to 74 percent of capacity, and paperboard output to 89 percent of capacity. Automobile production, however, was only slightly below the January level and sales improved.

Along with the decline in production the number of people unemployed and looking for work in February rose an additional 500,000 to about 3.5 million. New claims for unemployment insurance have been declining steadily since January, indicating a possible slowing of the rate of increase.

### Construction Boom Rolls Along

Every month for nearly the last five years the value of new construction put in place has reached a new peak for that particular time of year. February marked no exception to this trend. Expenditures for new construction dropped less than seasonally in February, to \$2.3 billion, and exceeded the dollar value of construction activity last February by 1 percent. This year-to-year margin is less, however, than for the preceding month, January, when it was 3 percent.

Registering the largest gains over last February were public utility construction, educational building, sewer and water development, and commercial and other non-residential building (with the exception of industrial building). Private residential building was also slightly ahead of last year. Public residential construction was down sharply, as were industrial and military construction. So far this year, generally lower levels of public construction activity have been more than offset by increases in the private sector.

### Retail Sales Up Slightly

Retail sales in February slightly exceeded sales in January after adjustment for seasonal and trading day differences. Higher sales of durable goods stores accounted for the rise, with sales of automotive and of lumber, building, and hardware stores rising 5 percent

or more from the January lows and with merchandise sales up 3 percent.

Nevertheless, retailers in February generally did not make out as well as they did in February of last year. Retail sales during the month were about 3 percent below last February; the latter, however, marked a postwar peak. Lower sales of durable goods accounted for most of the drop. Automotive sales were down 9 percent, apparel sales, 7 percent, and sales of lumber, building, and hardware stores, 6 percent below the levels of last February.

### Manufacturers' Sales, Inventories Down

Manufacturers, particularly durable-goods producers, continued to reduce their inventory holdings in January. The book value of manufacturers' inventories totaled \$46.8 billion at the end of the month, down \$300 million from the year-end level after seasonal adjustment, though still substantially above last January.

The inventory decline would have been even larger had sales come up to last year's levels. As it was, manufacturers' sales in January, at \$22.9 billion, were nearly 5 percent below sales in January, 1953, all of the decline occurring in durable goods. New orders fell even more than sales during this period, all of that decline also taking place in durable goods. As a result, unfilled orders at the end of the month were down substantially from the levels of both last January and this December, amounting to about 2.5 months' sales.

### Foreign Trade Falls Off

Foreign demand for American goods fell off in January. Total U. S. exports during the month came to a little over \$1 billion, 20 percent below exports a year earlier. Substantially lower military aid deliveries accounted for part of the drop. Also of importance, however, was reduced demand for American goods. This was partly the result of lesser dependence of foreign countries on American goods because of increased production of their own and partly reflects a desire on the part of these countries to conserve their gold and dollar holdings.

Imports of foreign goods also declined in January, falling 12 percent below last January's level to \$825 million.

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## Competition in the Auto Industry

Most of the auto industry experts anticipate 1954 passenger car output in the neighborhood of five million units. This would be a good year by any reasonable standard. It is not so very far below the six million produced in 1953, but the decline has hit some branches of the industry with the impact of a major depression.

A year ago, all was prosperity and optimism, though it was realized that the pace couldn't continue. Volume was then being bolstered by the backlog of consumer demand accumulated through two years of Korean restrictions and by deficiencies in dealers' stocks. Capacity production caught up with these needs in short order. As the total number of cars in use increased, used car prices dropped sharply, making it harder to sell new cars. Production had to be cut back. The whole sequence of changes brought things more into line with the competitive markets of the prewar years. It was, in effect, just a matter of getting back to normal.

The impact of these changes was, of course, uneven. Sales by some manufacturers and dealers practically came to a standstill. Many dealers found themselves with large inventories they couldn't move. The year ended in an atmosphere of fault-finding and recrimination. Charges of uneconomic practices flew back and forth, and there were veiled threats that government action would be obtained to restrain alleged offenders.

### Competition Among Producers

Factory prices mostly held steady through the decline. The manufacturers generally believe that buyers can be attracted better by increasing quality than by reducing prices. Hence, the pattern of competition has long since been summarized in terms of the policy, "Always more for your money, but never less money!"

In fact, the trend might be as accurately described as one of "always more money." Stable factory prices have not kept average values from going up. Never before have so many expensive extras been offered. There are larger engines, special transmissions, radios, heaters, power brakes, power steering, seat shifters, window openers, and a variety of deluxe features, totaling more than half the base price of the car. Some time back it might have been claimed that the buyer was being forced to take extras he didn't want. Today, no one in the business will argue with the buyer about specifications, but the extras are called for in still greater volume.

In the fight for markets under these conditions, Ford has stood out as the most aggressive competitor. It has been pursuing a policy designed to regain market leadership and, temporarily at least, has taken first place away from Chevrolet. In recent months, Ford's share of the market has risen sharply, General Motors has gained a little, and Chrysler and the independents have lost ground. As things stand at the moment, General Motors commands about 50 percent of the market, Ford a little over 30 percent, Chrysler less than 15 percent, and all the independents combined about 5 percent. A year ago, Ford and Chrysler were about equal at just over 20 percent, and the independents totaled more than 10 percent.

No doubt styling played an important part in bringing about these shifts, but mechanical changes and improvements in driving and riding qualities were also important. Keeping up with improvements is an expensive proposition for the manufacturer as well as the consumer, and this fact alone makes the industry one of the hardest in which to compete. Cost can be brought to a competitive level only as sales volume is large enough to spread heavy tooling expense and other capital charges over many units. In the postwar period, two new manufacturers entered the industry, and neither found it smooth sailing. Tucker failed, and Kaiser has merged with Willys. Another merger—Nash and Hudson—awaits stockholders' approval. Still others are rumored.

### Dealers' Margins

In contrast to the producers' problem, competition in distribution is mostly in terms of price. Since the factory price is beyond the dealer's control, this means that he competes by taking something less than the full margin provided by the manufacturer's suggested retail price. Services and guarantees make some difference, but most buyers won't pay much for advantages of this kind.

The dealer has various devices for raising or lowering prices, the foremost being adjustment of trade-in allowances. In some postwar years, allowances were low enough so that he not only realized his full margin on the new car but also made a good profit on the car he took in trade. Today he is generally offering enough so that he sacrifices something of his margin on both. Despite the stable factory prices of the past year or more, the actual prices charged have been cut more than 10 percent. This brings margins more nearly into line with prewar, when they averaged less than half the amount nominally provided.

Dealers who recently found themselves overstocked—with heavy carrying charges and declining prices on cars they couldn't sell—complained that the manufacturers had overproduced to the extent that the market was broken and the dealer forced to incur losses. The manufacturers, in reply, stressed the need for a greater selling effort and pointed out that the lush years of the sellers' market couldn't last forever.

What this controversy really amounts to is an argument about relative margins. The dealer doesn't want to bear the whole burden of lower prices. The manufacturer fears that cutting his established price may be self-defeating, by creating a popular impression that his product is inferior. He doesn't want to disrupt distribution by forcing his dealers out of business. On the other hand, the terms on which cars are sold are not inconsequential to him; for both the total market and his share of it depend in part on the prices consumers actually have to

(Continued on page 6)



ALUMINUM AND ALUMINUM PRODUCTS

Although there is a greater abundance of aluminum than of any other metal in the earth's crust, only in recent years has efficient production made aluminum cheap enough for large-scale use. A shovelful of clay taken at random from the ground can be made to yield aluminum—if cost is no object. Unlike such metals as gold and copper, aluminum is never found in its pure state, but is always chemically combined with other elements. The problem of aluminum production has been the extraction of the pure metal from these compounds.

A century ago, the only known process of production was so expensive that Emperor Napoleon III provided only his most honored guests with aluminum spoons and forks, while less important members of the court had to be content with mere gold and silver service. Napoleon III's real interest was stirred by dreams of the military advantages of lightweight armor and equipment. The Emperor's patronage led to the discovery of production methods which lowered production costs from \$545 a pound in 1825 to \$17 a pound in 1859, but it was still too expensive for any practical or large-scale use.

Commercial development of aluminum remained beyond the reach of man until 1886 when two young men, one French and the other American, each discovered the same refining process without knowing of the work of the other. This process, now known as the Hall-Heroult process, is still the basis of all commercial aluminum production. The process begins with the grinding of bauxite, the ore of aluminum. After bathing in a hot solution of sodium hydroxide, it is filtered, cooled, washed, and then heated white-hot. Alumina, or aluminum oxide, is the result. The alumina is then electrolytically reduced; the oxygen combines with the carbon of the electrodes, forming carbon dioxide gas, which escapes, and molten aluminum, which is deposited on the carbon bottom of the cell. The molten metal is then tapped into ladles and cast into "pigs."

Cheaper electric power and processing improvements have resulted in a continual drop in costs of production until in the latter part of 1953 the price of aluminum was about 18 cents a pound.

Illinois Plant First in Nation

The first plant in the United States constructed for the refining of bauxite into alumina was constructed in East St. Louis, Illinois, by the Aluminum Company of America in 1902. Its proximity to bauxite deposits in Arkansas and to coal, limestone, and railroad and water transportation facilities has helped this plant maintain a prominent place in the industry up to the present time. However, the increased importation of bauxite from South America and cheaper power has caused the construction of newer alumina plants in the Gulf States.

In addition to the Alcoa alumina plant, Illinois has one bauxite deposit, which also belongs to Alcoa, at Rosiclare; four fabrication plants, three of which belong to the Reynolds Metals Company and one to Alcoa; and

a sheet rolling mill. The fabrication plants and the rolling mill are all located in the Chicago area.

The only process in the production of aluminum which is not carried on in Illinois is the reduction of alumina to aluminum. This is a process requiring tremendous quantities of electricity. Reduction plants have therefore been constructed in the southern and north-western states where large supplies of cheap electricity are available.

There is, however, a considerable quantity of secondary aluminum production (smelting of new and old aluminum scrap) carried on in Illinois. With the exception of one plant located in Beckemeyer in the southern part of the State, these secondary producers are heavily concentrated in the areas immediately surrounding Chicago and Aurora where large quantities of new scrap are available from fabricators of aluminum products. Among the nine secondary producers is the Apex Smelting Company of Chicago, the largest of the industry.

Use in Illinois Industry and Agriculture

The increased availability and lower cost of aluminum have had a sizable effect on Illinois industry. Many of the State's most important industries are now using aluminum as one of their basic materials. Aluminum has, for instance, come into increasing use in the manufacturing of railroad locomotives and cars, a major industry in Illinois. An all-aluminum railroad passenger car weighs about 5 tons less than the old-type car, an important advantage with respect both to speed and to economy of operation.

Another industry which is using large amounts of aluminum is the construction industry, which accounted for almost 20 percent of 1951 consumption. An example of the possibilities of aluminum as a construction material was provided by the aluminum-clad home-office building recently completed in Pittsburgh by the Aluminum Company of America. The building is 30 stories high and was designed to meet the building codes of every city in the United States of over 100,000 population. Even wiring and piping is almost completely aluminum.

Other industries in which aluminum is becoming a basic material are bus and truck manufacturing, household appliances, electrical, radio and television equipment, and furniture for the office and household.

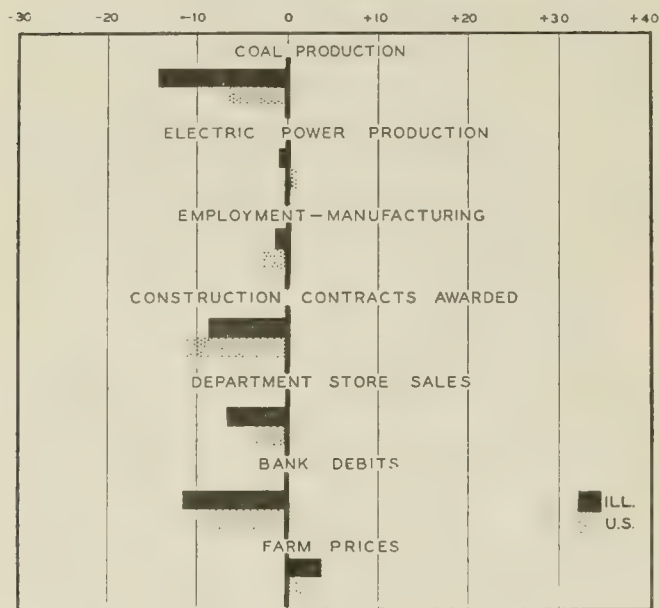
Of special interest to Illinois farmers is the recent development of aluminum pipe to be used for irrigation purposes. Unlike conventional irrigation systems, no ditches or permanent installations have to be made to use this light aluminum pipe which comes in sections and may be assembled or disassembled and moved from one field to another and used with local water supplies.

The development of lightweight, corrosion-free fiberglass reinforced plastic poses what will probably be the main competitive problem for aluminum in many uses. The metal has a large cost advantage, however, and the ultimate area of use is so great that its potentials have only begun to be tapped.

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes December, 1953, to January, 1954



## ILLINOIS BUSINESS INDEXES

Item	January 1954 (1947-49 = 100)	Percentage Change from	
		Dec. 1953	Jan. 1953
Electric power <sup>1</sup> .....	183.0	- 0.8	+12.5
Coal production <sup>2</sup> .....	87.2	-14.6	+ 9.9
Employment—manufacturing <sup>3</sup> ..	105.3	- 1.3	- 5.0
Payrolls—manufacturing.....	n.a.		
Dept. store sales in Chicago <sup>4</sup> ..	101.0 <sup>a</sup>	- 6.5	+ 1.0
Consumer prices in Chicago <sup>5</sup> ..	116.7	+ 0.3	+ 2.2
Construction contracts awarded <sup>6</sup>	140.8	- 8.6	+56.0
Bank debits <sup>7</sup> .....	139.4	-11.7	- 2.7
Farm prices <sup>8</sup> .....	106.3	+ 3.8	+ 2.2
Life insurance sales (ordinary) <sup>9</sup> ..	139.5	-17.3	+ 4.1
Petroleum production <sup>10</sup> .....	97.4	+ 1.7	+ 5.9

<sup>1</sup> Federal Power Commission; <sup>2</sup> Illinois Department of Mines; <sup>3</sup> Illinois Department of Labor; <sup>4</sup> Federal Reserve Bank, 7th District; <sup>5</sup> U. S. Bureau of Labor Statistics; <sup>6</sup> F. W. Dodge Corporation; <sup>7</sup> Federal Reserve Board; <sup>8</sup> Illinois Crop Reports; <sup>9</sup> Life Insurance Agency Management Association; <sup>10</sup> Illinois Geological Survey.  
<sup>a</sup> Seasonally adjusted. n.a. Not available.

## UNITED STATES MONTHLY INDEXES

Item	January 1954	Percentage Change from	
		Dec. 1953	Jan. 1953
Personal income <sup>1</sup> .....	Annual rate in billion \$ 282.5 <sup>a</sup>	- 0.7	+ 0.7
Manufacturing <sup>1</sup> .....			
Sales.....	284.4 <sup>a</sup>	- 1.7	- 3.3
Inventories.....	46.4 <sup>a, b</sup>	- 0.6	+ 4.7
New construction activity <sup>1</sup> .....			
Private residential.....	9.9	-13.3	+ 1.1
Private nonresidential.....	10.7	- 7.1	+ 9.5
Total public.....	8.5	- 5.4	- 3.0
Foreign trade <sup>1</sup> .....			
Merchandise exports.....	16.2 <sup>c</sup>	+ 8.5	- 3.0
Merchandise imports.....	10.9 <sup>c</sup>	+ 6.9	-13.8
Excess of exports.....	5.3 <sup>c</sup>	+11.8	+30.4
Consumer credit outstanding <sup>2</sup> .....			
Total credit.....	28.1 <sup>b</sup>	- 2.7	+ 9.5
Installment credit.....	21.4 <sup>b</sup>	- 1.7	+13.8
Business loans <sup>2</sup> .....	22.5 <sup>b</sup>	- 3.8	- 2.2
Cash farm income <sup>3</sup> .....	32.4	- 9.2	- 2.8
Indexes (1947-49 = 100)			
Industrial production <sup>2</sup> .....			
Combined index.....	125 <sup>a</sup>	- 1.6	- 6.7
Durable manufactures.....	140 <sup>a</sup>	- 2.1	- 9.1
Nondurable manufactures.....	112 <sup>a</sup>	- 0.9	- 4.3
Minerals.....	113 <sup>a</sup>	+ 1.8	- 2.6
Manufacturing employment <sup>4</sup> .....			
Production workers.....	104 <sup>a</sup>	- 1.8	- 6.4
Factory worker earnings <sup>4</sup> .....			
Average hours worked.....	99	- 2.0	- 3.9
Average hourly earnings.....	135	+ 0.6	+ 3.4
Average weekly earnings.....	134	- 1.4	- 0.6
Construction contracts awarded <sup>5</sup> .....	151	-11.4	+ 7.1
Department store sales <sup>2</sup> .....	108 <sup>a</sup>	- 3.6	- 2.7
Consumers' price index <sup>4</sup> .....	115	+ 0.3	+ 1.1
Wholesale prices <sup>4</sup> .....			
All commodities.....	111	+ 0.6	+ 0.8
Farm products.....	98	+ 3.7	- 1.7
Foods.....	106	+ 1.8	+ 0.7
Other.....	115	- 0.1	+ 1.2
Farm prices <sup>3</sup> .....			
Received by farmers.....	96	+ 2.0	- 3.4
Paid by farmers.....	113	+ 1.4	- 0.7
Parity ratio.....	92 <sup>d</sup>	+ 1.1	- 2.1

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for December, 1953; comparisons relate to November, 1953, and December, 1952. <sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1954					1953	
	Feb. 20	Feb. 13	Feb. 6	Jan. 30	Jan. 23	Feb. 21	
Production:							
Bituminous coal (daily avg.).....	thous. of short tons..	1,208	1,266	1,306	1,401	1,402	1,392
Electric power by utilities.....	mil. of kw-hr.....	8,551	8,684	8,674	8,855	8,976	8,147
Motor vehicles (Wards).....	number in thous.....	136.7	130.4	127.9	133.1	137.7	152.0
Petroleum (daily avg.).....	thous. bbl.....	6,217	6,221	6,172	6,159	6,195	6,449
Steel.....	1947-49=100.....	110.7	110.4	110.4	112.2	109.9	139.1
Freight carloadings.....	thous. of cars.....	619	624	624	628	617	682
Department store sales.....	1947-49=100.....	86	91	86	85	86	85
Commodity prices, wholesale:							
All commodities.....	1947-49=100.....	110.5	110.5	110.6	110.9	110.9	109.6
Other than farm products and foods.....	1947-49=100.....	114.4	114.4	114.5	114.5	114.5	113.1
22 commodities.....	1947-49=100.....	87.8	88.4	87.9	87.5	87.7	89.5
Finance:							
Business loans.....	mil. of dol.....	22,555	22,556	22,638	22,502	22,686	22,881
Failures, industrial and commercial.....	number.....	215	277	238	233	208	200

Source: Survey of Current Business, Weekly Supplements.



# RECENT ECONOMIC CHANGES

## Foreign Trade in 1953

Merchandise exports, including Mutual Security and Department of Defense shipments, totaled a record \$15.7 billion in 1953, \$500 million above 1952. Excluding grant aid shipments, exports amounted to \$12.2 billion, \$1 billion below 1952, and were more nearly in balance with imports than in any year since World War II.

As shown by the accompanying chart, movements in exports (exclusive of government aid) and imports during 1953 corresponded roughly with the pattern established in the second half of 1952. Foreign demand for American merchandise fell sharply in mid-1952, largely because of reduced demand for U. S. agricultural products, particularly wheat and cotton. Foreign food shortages had largely disappeared and many food-importing countries resumed buying from traditional suppliers. High output and large stocks of cotton in other producing countries retarded demand for U. S. cotton exports during 1952 and most of 1953, although recently there have been indications of some improvement in cotton exports. Exports of fuels and steel were also down in 1953 as a result of improved supply conditions abroad and some reduction in demand.

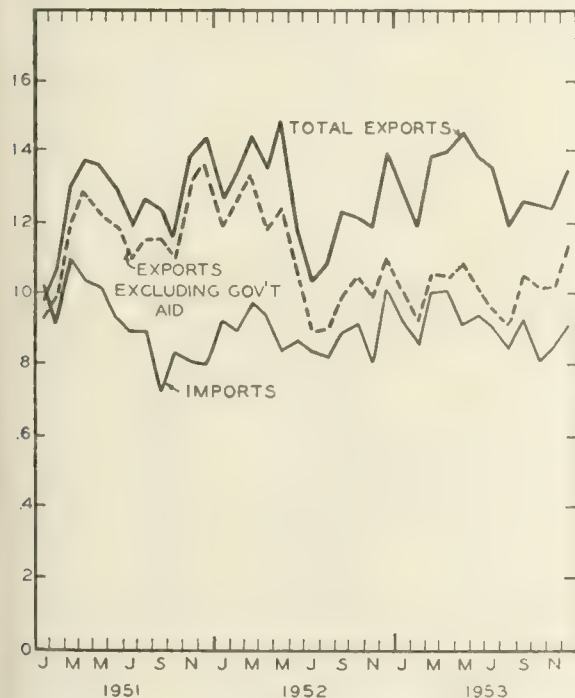
Imports, though fluctuating considerably, tended upward during the first half of 1953, corresponding with the high level of business activity in this country and high demand for raw materials. In the second half of the year imports declined, reflecting the reduction in manufacturing activity.

## Consumer Durables Output High in 1953

Production of consumer durables in 1953 exceeded 1952 by more than a fourth. With materials controls eliminated, automobile output totaled 6.1 million cars.

### EXPORTS AND IMPORTS

BILLIONS OF DOLLARS



Source: U. S. Department of Commerce.

This was about a half million below the 1950 peak, but 1.8 million above 1952.

Output of other major consumer durables reached a peak in the first quarter and then declined. By the fourth quarter, production was considerably below the first quarter rate and also below the 1952 average. The decline centered largely in such established lines as washing machines, refrigerators, and ranges.

Output of many relatively new durables continued to advance during the year. Production of air conditioners was in excess of 1 million units compared with 360,000 in 1952. Production of television sets expanded from about 6 million units in 1952 to 7.2 million last year, as over 200 new reception areas were established during the year. Radio production was well above the two previous years, with higher output of automobile radios accounting for almost all of the increase. Production of dryers and farm and home freezers continued to expand but the rate of increase slowed somewhat during the year.

## GNP Up During Year, Down in Second Half

Gross national product amounted to \$367.2 billion in 1953. Despite third and fourth quarter declines, this was more than 5 percent above 1952, as all major components of GNP except net foreign investment expanded during the year. Personal consumption expenditures advanced 5 percent to \$230 billion. Private domestic investment increased 3.5 percent to \$54.4 billion with advances in new construction outlays and purchases of producers' durables more than offsetting a \$1.2 billion slowdown in the rate of inventory accumulation.

### GROSS NATIONAL PRODUCT OR EXPENDITURE

(billions of dollars)

	1953	1952	4th Qtr. 1953*
Gross national product.....	367.2	348.0	363.5
Personal consumption.....	229.8	218.1	230.0
Durable goods.....	30.1	26.7	29.1
Nondurable goods.....	121.2	118.8	120.4
Services.....	78.4	72.7	80.5
Domestic investment.....	54.4	52.5	48.8
New construction.....	25.1	23.4	25.3
Producers' durable equipment.....	26.7	25.4	26.5
Change in business inventories.....	2.5	3.7	-3.0
Nonfarm inventories only.....	3.2	3.1	-2.3
Foreign investment.....	-1.9	-.2	-1.0
Government purchases.....	84.9	77.5	85.7

### INCOME AND SAVINGS

National income.....	307.7	291.6	n.a.
Personal income.....	284.5	269.7	285.9
Disposable personal income.....	247.9	235.0	249.3
Personal saving.....	18.1	16.9	19.3

\* Seasonally adjusted at annual rates.

Federal, state, and local government purchases of goods and services also increased during the year. Federal expenditures increased \$5.5 billion with national security outlays up \$3 billion to \$52 billion, a much smaller increase than in the two preceding years. Higher expenditures under the farm-price support program accounted for most of the remaining advance in Federal expenditures. At the state and local levels outlays advanced \$1.8 billion largely because of continued high-level highway and school construction activity.

Within the year gross national product reached its peak in the second quarter and then declined. In the fourth quarter, GNP was down \$6 billion from the third

quarter and \$8 billion from the second to \$363.5 billion (seasonally adjusted annual rates). All of the reduction reflects changes in the rate of inventory investment. During the second quarter inventories were accumulated at a \$6.3 billion annual rate; in the third quarter accumulation slowed to \$3.1 billion; and in the closing quarter stocks were liquidated at an annual rate of \$3.0 billion.

### Sales Decline Slightly

Despite reductions in employment and income which began in the third quarter of last year and have extended into the opening months of 1954, retail sales have declined only moderately. Monthly sales averaged \$14.1 billion in the second half of 1953, only \$300 million below the first six months. In January retail sales declined 1 percent to \$13.8 billion, 3 percent below a year ago.

Most of the decline in business sales has occurred at the manufacturers' level. Between the first and second half of last year, manufacturers' sales declined only 2 percent, but sales in the fourth quarter were off 6 percent from the second quarter peak. In January deliveries dropped \$400 million to \$23.7 billion (seasonally adjusted), new orders declined by \$1.8 billion, and backlogs decreased. Manufacturers cut back production relatively more than sales declined, so that the book value of their inventories was down to \$46.4 billion in January from the September peak of \$47.1 billion.

Although department store stocks were liquidated substantially following the involuntary expansion that occurred after demand slackened last fall (see chart), total retail inventories have been reduced only slightly.

The combined effect of continuing high level retail sales and the absence of large-scale liquidation of retail inventories may help reduce manufacturers' inventories to a level more in line with sales and possibly bring recent declines in employment to a halt.

**DEPARTMENT STORE SALES AND STOCKS**  
(seasonally adjusted)



Source: Federal Reserve Board.

## Competition in the Auto Industry

(Continued from page 2)

pay. The question thus becomes, not whether the dealer should have some margin or none, but merely how much.

Given conditions of production like those now existing, it is almost inevitable that competition will force some reduction in dealers' margins. Any dealer who refuses concessions loses sales to the others. Any manufacturer whose dealers generally refuse concessions will lose part of the market to his competitors. All have an interest in forcing the market to something like the same extent. No one, however, holds that it can be forced by production alone. Any overproduction that may have occurred seems to have been tied up with sudden, "unbelievable" reductions in market shares.

### Bootlegging

A recent development that complicates the distribution picture is referred to as "bootlegging." The bootlegged cars are obtained from franchised dealers near the centers of production. These dealers sell new cars at a fraction of the normal margin to used car dealers who will transport them to points so distant that they cannot adversely affect the local market. Thus, the bootlegger plays a role like that of the discount house which sells other consumer goods at cut rates, though the situation is not quite the same, since the auto industry has never followed a policy of resale price maintenance.

The bootlegger may drive the cars to their destination or otherwise save enough on transportation to give him substantially the same gross margin as the new car dealer at that location. Because he has low overhead costs and does not have to conform to new-car service policies, he can sell at less than the margin needed by the new car dealer. If he offers cars at discounts of \$300 or \$400, the local new car dealer has to offer discounts in the range of \$100 to \$300. Most people prefer to buy from the established dealer and get the new-car guarantee; but some will forego this for a saving of \$100 and many more will take their chances when the saving is as high as \$200.

This price cutting would be clearly unfair if the dealer who put the cars into bootlegging channels in the first place was merely doing so to meet his sales quotas while maintaining margins in his home market. However, there is little to indicate that this is the case. Chicago and Detroit, where most of these transactions are reported to be originating, are among the most highly competitive markets in the country.

Under these conditions, bootlegging may be no more than a device for forcing price cuts in areas where local conditions might otherwise tend to restrict competition. Throughout the country there are semi-isolated markets in which new car dealers would not have to shade their margins greatly in the ordinary course of business relations. Whenever anyone in this position appears to have too much of a good thing, others will move in and take some of it away from him. In this case it is the bootlegger who does the job.

It is only natural for dealers to complain when both their volume and their profit margins are cut. Some have even been forced to close shop. After the situation gets shaken down, it is probable that most dealers will be able to earn reasonable, though by comparison much lower, profits. Nevertheless, the industry faces a continuing problem of dealer relations—one that will be aggravated in each recurring crisis.

VLB



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Language Translating Electronic Computer

An electronic computer which can translate Russian sentences into English has been developed by International Business Machines Corporation with the help of linguists from Georgetown University's Institute of Languages and Linguistics. Named "701," the present machine is guided by six basic rules of syntax and grammar and has a 250-word vocabulary of English equivalents.

According to Professor Leon Dostert, Georgetown linguist who originated the practical approach to electronic translation, the machine will improve its ability to translate Russian and will someday tackle Germanic and Romance languages. Eventually the "701" will have separate dictionaries for each technical area and as many as 100 rules to guide its electronic translations, which are rattled off at the rate of  $2\frac{1}{2}$  lines a second. The Russian language was chosen as a starter because there is a large amount of data about the Soviet Union which has not yet been studied by Western scientists and technicians.

### Mobility of the United States Population

Only about 2 percent of the adult population have always lived in the same house, according to a report recently released by the Bureau of the Census. Approximately 31 million persons, or 20 percent of the United States population one year old and over, changed residence between April, 1952, and April, 1953. Two-thirds moved within the same county; slightly over one-sixth moved between states.

The smallest proportion of movers was found among persons living on farms and in large cities and their

environs and the highest proportion in the smaller cities and in towns and villages. A higher percentage of persons in the labor force moved than those not in the labor force, and the unemployed were more mobile than the employed. The survey also indicated that moving varied considerably with age and length of marriage. Young adults were much more mobile than the remainder of the population, and mobility declined steadily as the length of marriage increased.

### No Carbon Needed with New Type Paper

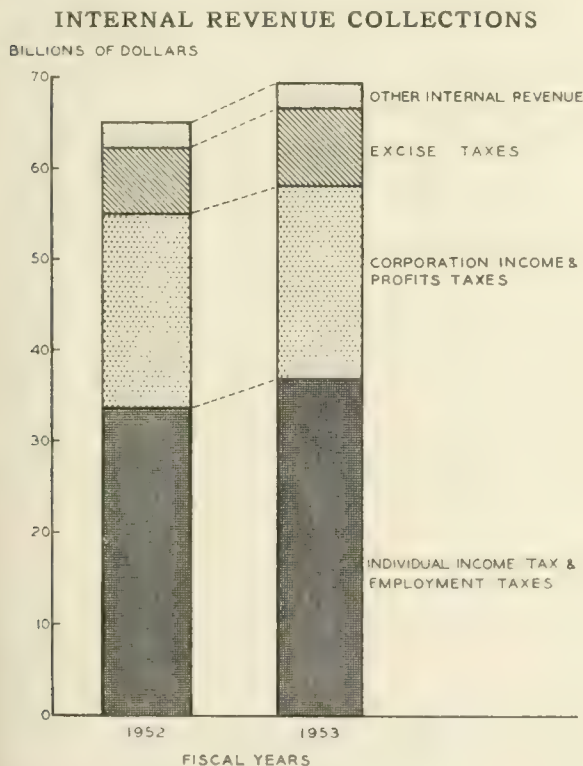
A new process makes it possible to produce multiple copies of business forms without using carbon paper. Called NCR (no carbon required) Paper, the new product utilizes the action of a colorless chemical coating on a claylike material. The underside of the first sheet is coated with a colorless chemical and the upperside of the second sheet is covered with the claylike substance. The impact of a typewriter character or the pressure of a pencil on the first sheet drives the chemical coating into contact with the material on the top of the second sheet causing an immediate chemical reaction which turns the claylike material blue, leaving a clean, sharp impression on the second sheet. The back of the second sheet, also coated with the colorless chemical, in turn passes the impression to the top of the third sheet, which is also coated with the claylike material. Up to seven copies can be made in this way with an electric typewriter and up to four copies can be made by hand.

Developed by the National Cash Register Company, Dayton, Ohio, the new paper, which has been under study since 1939, eliminates smudging, speeds efficiency in handling forms, and ends the dirt and bother of carbon paper. It will be priced to compete with carbon paper systems, according to the manufacturer.

### Federal Tax Receipts

Individual income tax and employment taxes (railroad retirement contributions, old age insurance, and unemployment insurance) were still the major source of Federal receipts in 1953. About half of the Internal Revenue Service's collections came from individual income taxes and employment taxes, a third of the total came from corporation income and profits taxes, and about a tenth came from excise taxes. Collections totaled \$69.7 billion in fiscal 1953 compared with \$65.0 billion the preceding year (see chart). Excise taxes increased most from 1952, up 12 percent, but income and employment taxes gained almost as much, up 10 percent. Revenue from corporation income and profits taxes rose less than 1 percent, whereas other revenue increased 6 percent.

Collections during the first part of fiscal 1954 are slightly less than for the same period last year. The lowering of individual income taxes by about 10 percent on January 1, 1954, and the removal of excess profits taxes on corporations as of the same date will no doubt affect total receipts during fiscal 1954. However, in an effort to balance the budget and prevent inflationary deficits, the President has recommended that reductions in the general corporate income tax be deferred for a year and that excise tax rates be continued at the same level.



Source: U. S. Treasury Department.

# THIS OPTIMISTIC RECESSION

RUTH A. BIRDZELL, Research Associate

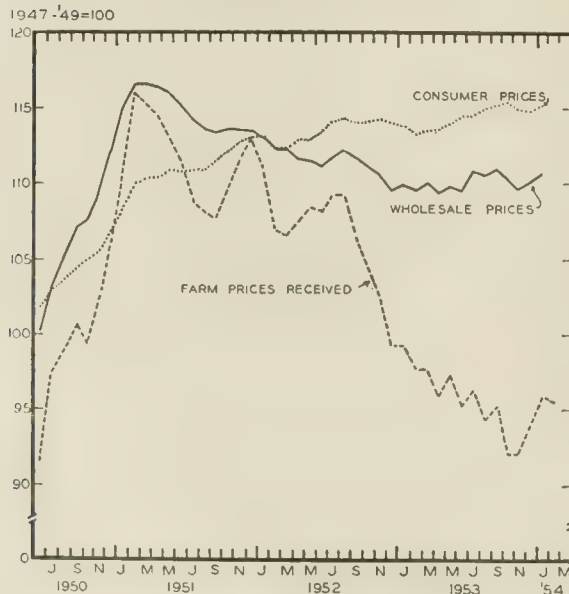
A striking aspect of the current business recession is the fact that most prices have remained virtually unchanged. Even though industrial production has declined almost 10 percent from the 1953 high, wholesale commodity prices have remained at their pre-slump levels and consumers' prices are a little higher. Moreover, stock market prices have actually been making new highs. These divergent movements have presented an economic puzzle for many observers.

## Price Stability Follows Korean Bulge

Immediately after the outbreak in Korea, wholesale prices began a rapid climb which carried the BLS index from approximately 100 percent of the 1947-49 average in June, 1950, to 116 percent in March, 1951. (See Chart 1.) At that point the index was about 10 percent above the previous post-World War II peak. Farm prices rose more rapidly, but did not surpass the previous peak by so large a margin. The sensitive price index of 22 commodities, paced by industrial materials, rose about 70 percent between early 1950 and February, 1951. Imported materials such as rubber and tin played an important part. Consumer prices, lagging as usual, rose from 103 to 110 during this period, and then continued to move up after wholesale prices turned down.

When the scare began to wear off, sensitive prices dropped back during the spring of 1951, stabilized in the second half of the year, and then began a long slide which continued until the index was back to the pre-Korean level, at which point it tended to stabilize again. The comprehensive wholesale price index showed a similar pattern, although the changes were of smaller magnitude and the level at which it stabilized was higher. The rise in consumer prices slowed about mid-1952, but was not halted until October, 1953, and even now the index is right back at the peak.

CHART 1. FARM, WHOLESALE, AND CONSUMER PRICES



Sources: U. S. Department of Agriculture and Bureau of Labor Statistics.

The index of wholesale prices has varied less than one point from 110 (1947-49 = 100) since November, 1952. Following the harvest slump of last summer, the farm products component of the index registered a drop of 4 percent from the July level of 98, but by January had fully recovered. Prices of foods and other products have dropped only fractionally. Divergent changes have occurred among the subgroups of the "all other" classification, with increases somewhat smaller than decreases.

Even the weekly index of 22 sensitive commodities, marked earlier by substantial ups and downs, has remained between 85 and 90 percent of its base figure since late last March.

Consumer prices reflect changes in the business scene much more slowly than wholesale prices. The consumer price index has hovered around 114 or 115 of the 1947-49 base for the last year. Since last August the index has varied from 115 by less than one-half percent. Prices of the services and rents included in the index are, of course, noted for being "sticky," but the index is also stabilized by overhead and labor cost elements included in the prices of commodities sold at retail.

## Termination of the Boom

In the period when prices were declining from the 1951 peak and then leveling off, the boom in business progressed to an early 1953 high and then began to recede. Gross national product rose more than \$50 billion from the beginning of 1951 to a record annual rate of \$371.4 billion in the second quarter of 1953. By the fourth quarter, it had dropped back to \$363.5 billion and was still falling.

Industrial production adjusted more quickly to changed conditions on both the advance and decline. Chart 2 shows its rapid rise in 1950, followed by a fairly stable period until output was cut sharply by the 1952 steel strike. Thereafter, durable manufactures were the strong element in the rise to a high of 137 (1947-49 = 100) in the spring of 1953. Hard goods were also of major importance in the subsequent decline. By January the index of industrial production had dropped 12 points, or 8.8 percent, from its 1953 peak.

Much of this decline in business activity appears to reflect adjustments in inventories. In the second quarter of 1953, additions to stocks were estimated at \$6.3 billion (seasonally adjusted annual rate). By the fourth quarter, business was cutting its inventories at the rate of \$3.0 billion. This total swing of over \$9 billion more than accounted for the entire decline in GNP.

In contrast with the typical inventory adjustment, in which price changes play an important part, prices in the present case have held steady.

## Why Prices Have Continued Firm

A major reason for this apparent paradox lies in the special character of the inventory adjustment. Much of the cutback has centered in durable goods — consumers', producers', and military. In most of these lines, new orders fell below production rates and products began to back up at manufacturers' plants. In lines like automobiles and farm equipment, where declines in sales were relatively severe, stocks mounted sharply.



Most of these industries are characterized by short-run stability of prices. Sales are made on a contract basis, or various mechanisms of price administration keep prices fixed over considerable periods of time. With materials costs down, there was no need to raise product prices; and with volume still high, it was not necessary to trim prices. In some cases, output reductions have been achieved by elimination of overtime work, and this meant savings that tended to offset the adverse effects of declining volume on profits.

Moreover, in these industries, it is the manufacturers' established, or suggested, prices that enter the price indexes. In many cases, however, and especially in the auto field, there is a substantial gap between the established price and the price actually paid by the ultimate consumer, when discounts and "liberal trade-in allowances" are taken into account. Similarly, in the steel industry, prices are nominally about the same as they have been, but instead of the conversion deals which prevailed during the tight-supply period, price cuts are now available in the form of reduced extras and freight absorption.

In the nondurable goods industries, where prices are typically more flexible, there has been no corresponding pressure of falling sales. These industries went through an inventory readjustment prior to the middle of 1952 and did not receive much of a stimulus in the subsequent period of advance.

In February, seasonally adjusted retail sales were off about 5 percent from the 1953 highs. Most of the decline occurred in durables, which were off 11 percent from the high made in February, 1953. Nondurables were off less than 3 percent from their July high, but were not significantly different from the level of a year earlier.

Consumer markets in general are still well supported. Disposable personal income, though down a little from the summer peak, remains above the year-ago level. It was strengthened further in January by the expiration of the last Korean boost of income taxes.

Even in the case of farm products, the declines that occurred in 1953 were largely unrelated to the decline in business. Farming in recent years has been plagued by

excess production. Wartime and postwar demands for agricultural products, especially foreign demand, occasioned a build-up of production far beyond our domestic needs. Foreign demand for our farm products has now been reduced substantially, as other countries recovered from the effects of the war and increased production. Our production has not been altered in recognition of the changed circumstances, and this has resulted in downward pressure on prices as surpluses accumulated. However, with consumer income holding up fairly well, there is no reason to expect the current business adjustment to contribute to the recent weakness in this area.

## Security Prices Reflect Confidence

Stock market prices have discounted the downward movement in business activity to an even greater extent than commodity prices. Whereas production is down and commodity prices are stable, stock prices have shown a substantial upward trend since last September. (Chart 2.) The Dow-Jones average of prices of industrials reached a 25-year high early this month. Utilities have also been moving up consistently, but railroads are doing less well comparatively.

Most groups of stocks have shared in recent advances and many have reached new highs. Others have been stable or have shown moderate rises. Only a few groups, such as tobacco, have slumped. The volume of trading has been moderate, and there are no signs of unrestrained speculation in the market.

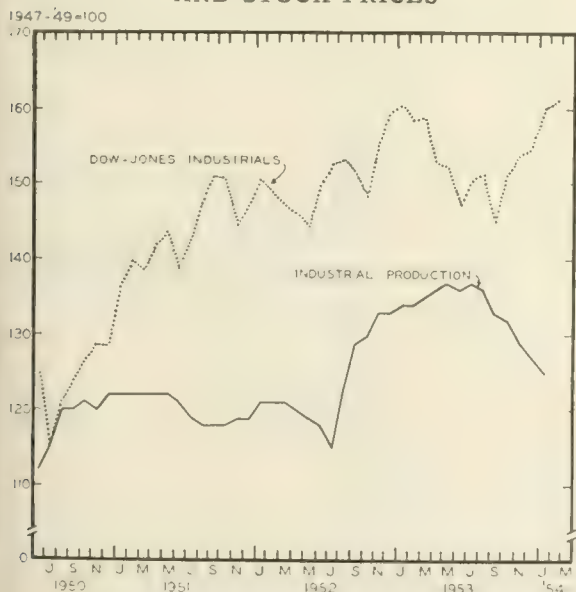
Part of this exceptionally favorable trend may be attributed to the reversal of interest rate policy. When interest rates fall, dividend yields are more attractive, and prices are bid up. Hence, the easier money policy initiated by the Federal Reserve system early last fall, after the "hard money" period that ended last June, helped maintain the high level of stock prices. The recent more open-handed attitude of corporation directors toward dividends has also encouraged investors.

Partly as a result of the return to easy money, there has been a growth in the over-all optimism both of investors and of corporation officers. That policy has provided one indication of the firm intention of the government to take steps to forestall a serious recession. Although not much has been done thus far, other indications are not lacking. Scheduled cuts in taxes on individual and corporate incomes have been made and further tax cuts are planned. The Administration wishes to balance the budget, but balancing will clearly give way to deficits if necessary to halt a severe slide.

Despite the recent slackening in business activity, therefore, most prices have remained steady at a high level. The majority of businessmen and consumers, while adopting a watchful attitude, have not been unduly frightened by the decline. Many businessmen have sized up the future as a time of high-level if not expanding business. Consumers are more cautious in their expenditures for durables but show no sign of drastically tightening their purse strings.

For the future, given international conditions similar to those now prevailing, commodity prices seem more likely to drift downward than to go up; for there is hardly an industry in this country where capacity is not sufficient to meet any foreseeable need. Such shifts as do occur, however, seem likely to be of modest proportions, similar perhaps to the gradual downward drift that prevailed through most of the great prosperity period of the 1920's.

**CHART 2. INDUSTRIAL PRODUCTION AND STOCK PRICES**



Sources: Federal Reserve Board and *Wall Street Journal*.

# LOCAL ILLINOIS DEVELOPMENTS

Illinois business activity declined seasonally during January. Indicators below both the December and January, 1953, levels included manufacturing employment, average weekly earnings, bank debits, and steel production. Steel mills in the Chicago District operated at only 76 percent of capacity during the month, turning out 1.8 million tons of steel. That was 2 percent less than in December and 16 percent less than in January, 1953.

However, some indexes registered strong gains over the same month a year ago—notably electric power production, coal production, construction contracts awarded, and petroleum production. Both the Chicago consumer price index, which rose to 116.7 (1947-49 = 100), and prices received by Illinois farmers edged upward by 2 percent from January, 1953.

## Record-Breaking Tax Receipts in 1953

Illinois tax receipts reached a record high in 1953 with the help of unusually large sales tax collections. Major tax sources produced \$422.2 million last year, up 13.2 percent from 1952. About half the total came from sales taxes, including \$5.9 million in delinquent sales taxes. Other major sources of tax revenue were motor fuel (\$129.2 million), cigarettes (\$31.5 million), public utilities (\$25.9 million), and liquor (\$1.7 million).

January sales tax receipts dropped slightly below those of January, 1953, as did revenue from cigarette and liquor taxes. However, total major tax income in January was boosted to \$37.4 million, up 4 percent from the same month of last year, primarily as the result of a 27 percent increase in revenue from motor fuel taxes.

## Coal Production Rises

January coal production by Illinois mines topped January, 1953, output by almost 400,000 tons, according to the State Mines and Minerals Department. Production totaled 4.2 million tons during the month, with 114 mines in 29 counties reporting. Williamson, Franklin, and Fulton counties each produced more than 500,000 tons.

The National Coal Association estimated that output in Illinois during 1953 reached approximately 44 million tons, off 1 million tons from the 1952 level. The decline was caused partly by the importation of residual oil to supply East Coast utility markets, which has forced Eastern coal suppliers to seek markets in the Midwest.

## Industrial Injuries

Compensable work injuries in Illinois in 1952 were most frequent among mining, quarrying, and petroleum production workers who reported 81.1 compensable injuries per 1,000 workers. Construction laborers had the second highest rate—41.4 injuries per 1,000 workers. The lowest injury rate was among finance, insurance, and real estate men who had only 3.8 accidents for every 1,000 workers. The average for all nonagricultural industries was 16.8.

Unskilled workers suffered proportionately more injuries than other workers. Apprentices, helpers, and laborers accounted for 27 percent of compensable injuries, but they comprised only 7 percent of the labor force (see chart). Skilled and semi-skilled workers (35 percent of the employed labor force) also suffered a disproportionate number of injuries (56 percent of the total). Drivers of motor vehicles accounted for more injuries than any other separate occupation—2,535 in 1952.

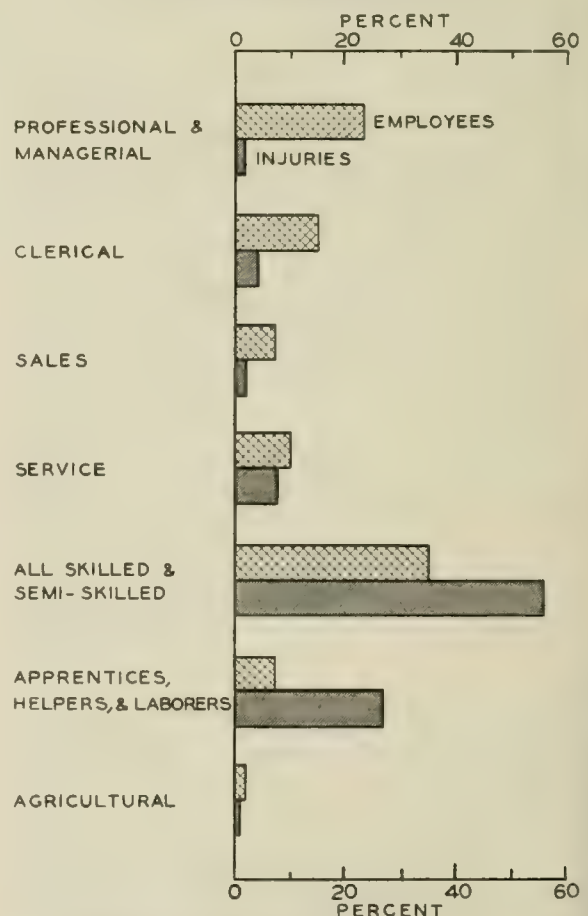
Of the occupational groups, construction workers were among the most severely injured, losing an average of 423 days per injury and collecting \$628 in compensation. Of the individual occupations, injuries to window washers were the most severe whether measured by the average compensation paid (\$1,500 per case) or the average number of days lost (1,193 per injury). The average for all occupations was 271 days lost and \$433 paid in compensation.

## Construction Contracts Rise

Construction contracts awarded in Illinois during January, off seasonally almost 9 percent from December, rose 56 percent above the level of the same month last year. That was considerably more than the 7 percent increase over January, 1953, reported by the F. W. Dodge Corporation for all 37 states east of the Rocky Mountains.

Awards for nonresidential building in Illinois during January, at \$36.1 million, were almost double those of a year ago. Contracts awarded for public works and utilities (\$12.8 million) were up 57 percent, and those for residential construction (\$25.8 million) increased 20 percent from January, 1953. About half the nonresidential contracts were for commercial, educational, and manufacturing buildings. Almost all the residential awards were for one- and two-family houses.

COMPENSABLE WORK INJURIES  
BY OCCUPATION



Source: Illinois Department of Labor.



# COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

January, 1954

		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS...</b>							
		\$14,371 <sup>a</sup>	978,240 <sup>a</sup>	\$664,395 <sup>a</sup>		\$12,183 <sup>a</sup>	\$12,607 <sup>a</sup>
Percentage Change from...	Dec., 1953...	-46.6	+2.8	+22.0	n.a.	-11.7	-37.4
	Jan., 1953...	-2.9	-1.4	-3.5	-3	-2.7	+6.4
<b>NORTHERN ILLINOIS</b>							
<b>Chicago...</b>							
		\$9,657	760,549	\$484,985		\$11,127	\$10,951
Percentage Change from...	Dec., 1953...	-57.5	+3.1	+20.7	n.a.	-12.0	-36.8
	Jan., 1953...	-20.4	-1.5	-4.2	-3	-3.0	+7.1
<b>Aurora</b>							
		\$ 154	n.a.	\$ 9,774		\$ 48	\$ 105
Percentage Change from...	Dec., 1953...	+541.7		+32.0	n.a.	-0.9	-32.3
	Jan., 1953...	+12.4		+0.3	-12	-1.0	+21.4
<b>Elgin...</b>							
		\$ 171	n.a.	\$ 7,222		\$ 28	\$ 84
Percentage Change from...	Dec., 1953...	-37.8		+15.0	n.a.	-11.1	-41.9
	Jan., 1953...	-20.5		+0.0	0	+2.2	+12.1
<b>Joliet...</b>							
		\$ 683	n.a.	\$16,047		\$ 58	\$ 99
Percentage Change from...	Dec., 1953...	+125.4		+24.0	n.a.	-12.2	-42.1
	Jan., 1953...	+189.4		+9.2	-9	-2.2	+23.7
<b>Kankakee</b>							
		\$ 64	n.a.	\$ 6,695		n.a.	\$ 33
Percentage Change from...	Dec., 1953...	-66.1		+27.6	n.a.		-47.7
	Jan., 1953...	+1.6		-3.8	n.a.		+6.6
<b>Rock Island-Moline...</b>							
		\$ 199	20,066	\$11,609		\$ 77 <sup>b</sup>	\$ 159
Percentage Change from...	Dec., 1953...	-68.2	+0.0	+24.2	n.a.	-4.8	-38.3
	Jan., 1953...	+91.3	-7.2	-8.7	n.a.	-5.3	-3.4
<b>Rockford...</b>							
		\$1,410	32,373	\$20,626		\$ 127	\$ 189
Percentage Change from...	Dec., 1953...	+165.5	+1.1	+22.2	n.a.	-13.3	-44.1
	Jan., 1953...	+112.0	-1.6	+0.9	-12	-7.9	-4.0
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington...</b>							
		\$ 52	7,074	\$ 6,532		\$ 57	\$ 81
Percentage Change from...	Dec., 1953...	-70.6	+1.5	+25.2	n.a.	-10.9	-32.4
	Jan., 1953...	+160.0	+2.2	-6.0	n.a.	-0.1	-16.5
<b>Champaign-Urbana</b>							
		\$ 40	9,578	\$ 9,074		\$ 55	\$ 78
Percentage Change from...	Dec., 1953...	-72.0	+1.0	+24.5	n.a.	-3.0	-49.2
	Jan., 1953...	+21.2	+7.2	-2.2	n.a.	+4.7	-1.1
<b>Danville...</b>							
		\$ 107	9,555	\$ 7,705		\$ 41	\$ 52
Percentage Change from...	Dec., 1953...	-55.6	+5.7	+25.9	n.a.	-1.5	-47.0
	Jan., 1953...	+1.9	+10.4	-2.8	-5	+0.3	+0.0
<b>Decatur...</b>							
		\$ 117	21,654	\$13,188		\$ 97	\$ 101
Percentage Change from...	Dec., 1953...	-48.0	-3.9	+28.4	n.a.	-6.9	-42.0
	Jan., 1953...	+64.8	-3.3	+7.2	+9 <sup>c</sup>	+20.1	+3.5
<b>Galesburg...</b>							
		\$ 13	6,697	\$ 5,333		n.a.	\$ 36
Percentage Change from...	Dec., 1953...	-77.6	-4.0	+25.3	n.a.		-37.7
	Jan., 1953...	-31.6	-0.1	+0.0	n.a.		+5.4
<b>Peoria...</b>							
		\$ 251	44,330 <sup>c</sup>	\$20,287		\$ 177	\$ 194
Percentage Change from...	Dec., 1953...	-31.6	+3.2	+26.2	n.a.	-7.6	-51.8
	Jan., 1953...	-52.2	-6.1	-7.5	-8 <sup>c</sup>	+0.5	+3.8
<b>Quincy...</b>							
		\$ 36	7,529	\$ 6,206		\$ 33	\$ 79
Percentage Change from...	Dec., 1953...	-49.3	+2.9	+29.2	-58	-10.9	-21.6
	Jan., 1953...	+12.5	-0.2	-0.5	+3	-6.3	+6.3
<b>Springfield...</b>							
		\$ 111	27,943 <sup>c</sup>	\$15,986		\$ 96	\$ 224
Percentage Change from...	Dec., 1953...	-78.3	+0.5	+28.2	n.a.	-9.0	-29.9
	Jan., 1953...	-59.0	+5.4	-7.4	n.a.	+1.7	-3.4
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis...</b>							
		\$ 967	12,862	\$11,203		\$ 126	\$ 74
Percentage Change from...	Dec., 1953...	+1,365.2	+2.4	+22.7	n.a.	-9.5	-40.1
	Jan., 1953...	+812.3	5.2	-3.7	n.a.	-5.9	+3.9
<b>Alton...</b>							
		n.a.	11,646	\$ 6,633		\$ 36	\$ 27
Percentage Change from...	Dec., 1953...		+4.6	+34.9	n.a.	-4.6	-55.8
	Jan., 1953...		-0.7	+1.2	n.a.	+11.4	-9.7
<b>Belleville</b>							
		\$ 339	6,383	\$ 5,292		n.a.	\$ 40
Percentage Change from...	Dec., 1953...	-11.5	+8.8	+24.5	n.a.		-43.3
	Jan., 1953...	+352.0	+9.4	+0.2	n.a.		+21.5

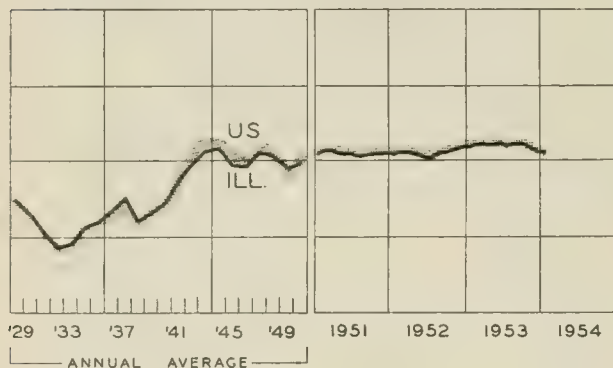
<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.

Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for December, 1953, the most recent available. Comparisons relate to November, 1953, and December, 1952. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

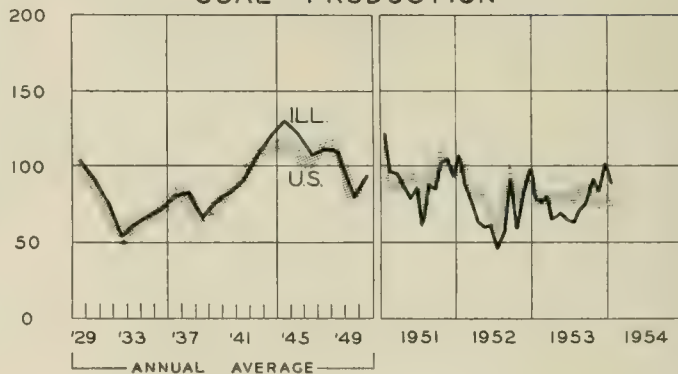
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

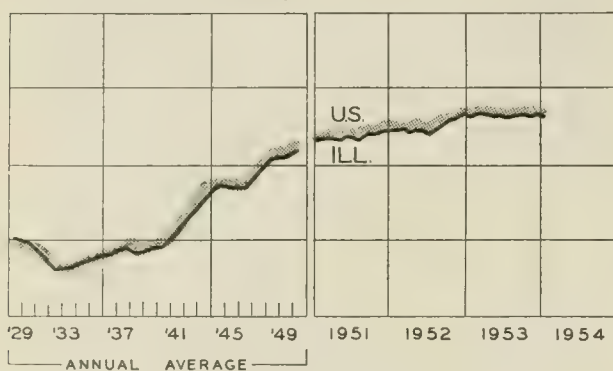
EMPLOYMENT - MANUFACTURING



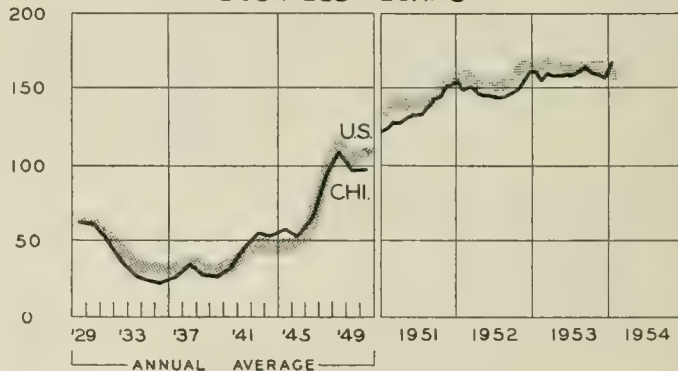
COAL PRODUCTION



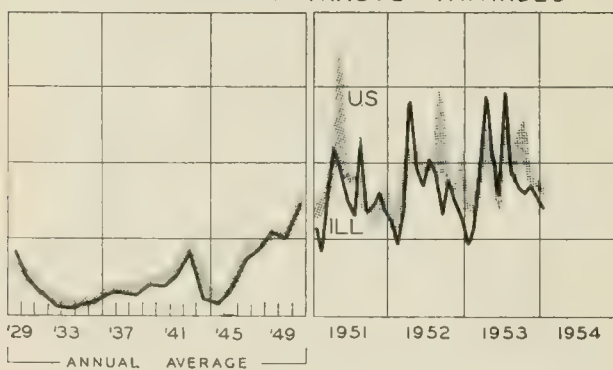
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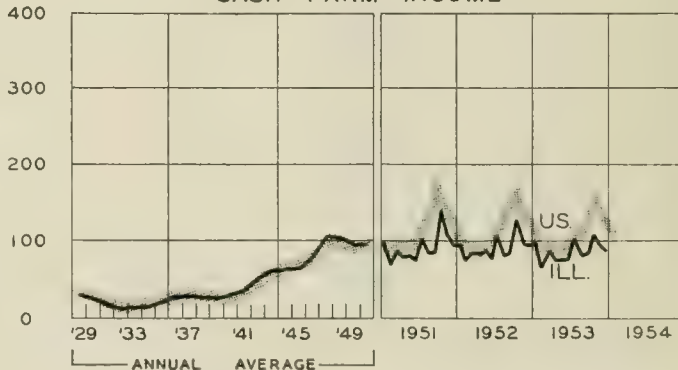
BUSINESS LOANS



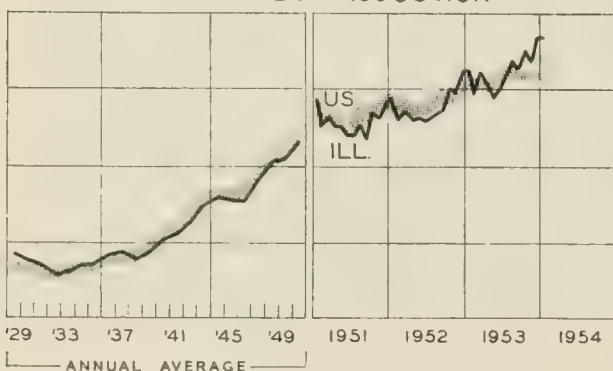
CONSTRUCTION CONTRACTS AWARDED



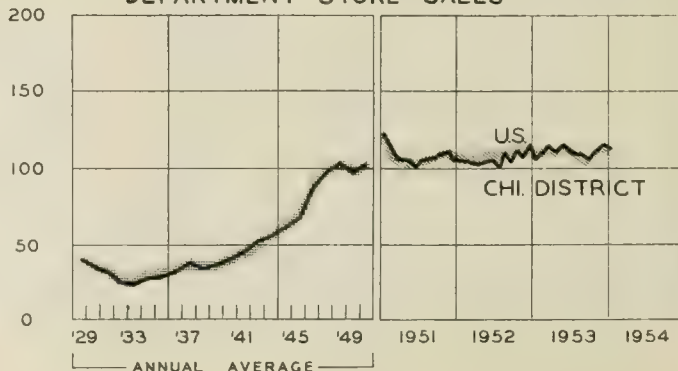
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

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## HIGHLIGHTS OF BUSINESS IN MARCH

March was the sort of month in which both optimists and pessimists on the business outlook could find ample justification for their views. On the one hand, personal income seemed to be holding up, construction activity was holding at record levels, prices generally remained stable or edged upward, capital expenditures appeared likely to remain near last year's record level, the stock market moved up sharply, and each political party was trying to outdo the other in lowering the taxpayer's burden. On the other hand, nonfarm employment declined contra-seasonally, department store sales lagged well behind year-ago levels, the farm situation appeared no brighter, and industrial production declined somewhat further because of reduced output of durable goods.

### Unemployment Shows Little Change

Unemployment in March remained at about the February figure of 3.7 million. The actual figure was 54,000 above that for February. Nevertheless, the movement, such as it was, ran counter to the usual seasonal decline in unemployment at this time of year.

Bad weather hindering outdoor activity in many areas and the late date of Easter this year were believed to account for a counter-seasonal decline of 126,000 in nonfarm employment in March. The drop brought nonfarm employment down to 54.2 million, as compared with 55.7 million in March, 1953. Farm employment, on the other hand, experienced its usual seasonal rise as activity picked up.

### Construction at Peak Levels

The value of new construction put in place in March rose seasonally and matched the record of \$2.5 billion for the month attained in March, 1953. The usual seasonal rise in commercial building was not in evidence this year but expanded activity in private home building, road building, and public utility construction more than offset this decline.

For the first quarter of this year construction outlays amounted to \$7.3 billion. This is a new high for the period slightly above the previous high established in the first quarter of last year. Adjusted for seasonal factors, spending in the first quarter was at an annual rate of \$36 billion, which is above previous government forecasts for 1954 by \$2 billion and the 1953 figure by \$1 billion.

### Stock Prices Surge to Postwar High

If a major recession was in the making in March, the stock markets did not seem to be aware of it. Early in the month, the Dow-Jones average of 30 leading industrial stocks broke the 300 mark. Not since the fall of 1929 had the index been at this level, and although many other stocks had not risen correspondingly — principally railroads and lower-priced stocks — the market was clearly optimistic regarding the business outlook.

The causes for this optimism were many. Perhaps the principal ones were the belief that the current slump was largely occasioned by inventory adjustments; the large amounts of savings in the hands of consumers; the record levels of construction activity and continued high capital expenditures by business; the lower, but still substantial, expenditures of Federal, state, and local governments; the possible stimulus to trade of current and prospective tax reductions; and the promise of quick action by the Federal government if the slump proceeded much further.

### Capital Expenditure and Sales Outlook

If businessmen adhere to plans reported in late February and early March, expenditures on new plant and equipment this year should be almost as high as in 1953. To judge by these replies, total capital outlays of American business exclusive of agriculture should amount to \$27.2 billion in 1954, a projected decline of 4 percent from the 1953 figure. Lower expenditures are anticipated by all major industry groups except mining and commercial firms. The largest declines are anticipated by railroads, down by 28 percent, and by durable goods concerns, down 10 percent from 1953.

For the first quarter of this year, capital expenditures are estimated on a preliminary basis to have exceeded the amount spent in the first three months of 1953 by 5 percent. Outlays in the second quarter, however, are expected to fall below year-ago levels.

Indicative of the generally optimistic attitude of American business is the expectation by manufacturers of a 1954 sales dip of only 3 percent from their 1953 rates. Utilities expect a 10 percent increase in business (though the margin over last year has narrowed since the survey was made) and nondurable goods industries a 3 percent rise, whereas durable goods producers are pessimistic — they expect a decline of 8 percent.

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## Economic Shock Absorbers

Optimism has mounted with the recession. Recent slowing in the rate of increase in unemployment is hopefully pointed to as an indication that the worst may be over. These hopes are bolstered by the fact that some strong points are even stronger than expected—witness new highs in construction activity and in the stock market. The government is moving in various ways to ensure the continuation of prosperity and seems more likely to overcompensate than just hold the line.

### The Built-In Stabilizers

A growing number of optimists think the problem of depressions has been licked. They cite various reasons why the old threat of depression no longer exists. Some of these reasons are no more than rather vague expressions of faith. Among the more solid are the factors that have come to be known as the "built-in stabilizers."

These stabilizers, or shock absorbers, as they are sometimes called, come into operation automatically on a decline to sustain personal income and expenditures. They consist primarily of government transfer payments—such as unemployment compensation and veterans' benefits—and a system of progressive, and therefore highly flexible, taxes on income.

Unemployment compensation perhaps best typifies the automatic stabilizer. The worker who becomes unemployed applies as a matter of right for compensation payments, and these provide a temporary source of income to tide him over the period of unemployment. It is the most direct measure for meeting the need; it is also highly efficient in maintaining consumer expenditures in that it places the funds where they are almost sure to be used. The total amount paid out is, of course, low in a period of prosperity; but even in a decline it is limited, because both benefit rates and the duration of payments are subject to severe restrictions under the various state laws. Total payments rose about \$1 billion in 1949 and seem likely to increase by something like the same amount this year. Although this will roughly double the \$900 million paid in 1953, it will be considerably less than 1 percent of total personal income, which is now running at a rate of more than \$280 billion.

Old-age pensions under the social security system are also thought of as a stabilizing element even though reserves are being built up from payroll taxes. The pensions are continuously expanding and therefore run

counter to any decline in income. Today, over 6 million pensioners are receiving payments and more workers reach retirement age each month. In addition, payments are rising slowly from the recent average of \$50 a month. Total payments in 1954 will probably approach \$4 billion, or more than a billion over the \$2.7 billion paid in 1953.

Other transfer payments are made under various public assistance and veterans' programs. Altogether, they will probably exceed \$15 billion in 1954, rising by something like \$2.5 billion from the 1953 level. This is practically all tax-free income and represents a highly significant offset to the decline in wage payments, which on the latest figures were down only \$6½ billion from the peak annual rate reached last summer.

Like transfer payments, tax reductions increase take-home pay or otherwise leave more of the income received available for spending. Whenever income declines, the tax liability also declines. Under present conditions, any decline in income results in an offsetting decline in income taxes almost one-sixth as large.

This effect is greatly increased, of course, when tax rates are lowered, as they were at the beginning of this year. Even allowing for partially offsetting increases in social security taxes, the rate reduction left consumers about \$2 billion more in spendable incomes. Subsequently, excise taxes were cut by \$1 billion a year; and while the effects of this reduction are more complex, it leaves another billion in the private economy.

As a compensating measure, tax reductions have two disadvantages. First, they add to the problem of government finance. The deficit will be \$4 to \$5 billion in fiscal 1954 and considerably higher in fiscal 1955. Second, they are less efficient than social security payments, because they merely leave funds with people whose incomes have been maintained rather than giving it to those whose incomes are lost. To put this another way, the taxes come partly out of saving rather than spending, and when they are not collected, they go partly into savings rather than expenditures. Despite these limitations, the tax reductions may be regarded as an important factor in sustaining consumer purchases. Hence, while the current decline in personal income is moderate, the decline in disposable income is practically negligible.

### Stabilizing Effects Are Limited

Taking these stabilizers as a whole, their effects are indeed powerful in the current situation. This fact is not, however, a good basis for generalization. The essential character of their action is to slow rather than to prevent declines. When production in any industry is reduced, income is correspondingly reduced, but the succeeding chain reaction of reduced spending by the workers' families, leading to further cuts in production of consumer goods, is slowed. The initiating decline is prevented from multiplying as rapidly as it otherwise would, but the repercussions of the decline in income on other industries are not eliminated.

Furthermore, these measures tend to lose their force as a decline progresses. The time limits on unemployment compensation put the worker on his own in a half year at the most, and much sooner in some states. In the record prosperity year of 1953, when jobs were at a record high, about a fourth of the workers receiving payments used up all their benefit rights. At the beginning of 1954, reserves available for this program amounted to \$9½ billion. But even in a major depression they couldn't

(Continued on page 6)



## FLUORSPAR PRODUCTION

Fluorspar, or calcium fluoride, is a mineral of great importance to a number of industries. It is used extensively in the manufacture of hydrofluoric acid, steel, aluminum, glass, enamel, and many fluorine compounds. Small quantities are also used in the processing of uranium.

### Early Discoveries Unexploited

Although fluorspar was discovered in southern Illinois as early as 1839, it was discarded as a waste product because its uses were unknown at that time and for some time afterward. The earliest mining and marketing of fluorspar took place in the 1870's and even then on an extremely limited scale because the chief use of fluorspar was in the manufacture of hydrofluoric acid and in the manufacture of opalescent glass and enamels, none of which required large quantities of fluorspar.

The large-scale use of fluorine in industry began in 1888 when the basic open-hearth process for the manufacture of steel was introduced in the United States. In the eight years previous to the introduction of the open-hearth process, fluorspar production averaged 6,000 tons per year, a figure which grew to 50,000 tons in 1902 and to 264,000 tons in 1918.

Domestic output of fluorspar received new impetus with the beginning of World War II. The 1939 production of 183,000 tons, the highest in 19 years, had almost doubled by 1942 when output reached 360,000 tons. During the later years of the war, production passed the 400,000-ton mark, and in the postwar period it has generally remained at a high level, standing at 346,000 tons in 1952.

This increase in the production and consumption of fluorspar has resulted in the working of mines where ore is harder to extract and is of lower quality. This, in turn, caused prices to more than double between 1939 and 1951.

### Illinois Top Producer, Large Consumer

Because of the relatively short rail haul to the Chicago steel-producing area and the availability of barging facilities to the Pittsburgh area, Illinois and Kentucky fluorspar mines had a big advantage over other producers. The Illinois-Kentucky area accounted for 100 percent of reported production in every year until 1902. Although a number of states now produce fluorspar, Illinois and Kentucky still account for more than three-fourths of national production. Today, Illinois usually averages from 50 to 60 percent of the nation's production and Kentucky varies from 25 to 35 percent. It is estimated that more than half of all fluorspar ever mined in the United States has been mined in Illinois.

Within Illinois, fluorspar production is concentrated in the extreme southeastern part of the State near the Kentucky border. About 92 percent of 1951 production came from Hardin County and the remainder from Pope County.

In addition to being the leading producer of fluorspar, Illinois is also one of its largest consumers. Although all but eight or nine states report some consumption of fluorspar, three states—Illinois, Ohio, and Pennsylvania—account for more than half of the nation's consumption. Pennsylvania is the leader in consumption in both the steel and glass industries whereas Illinois leads in the manufacture of hydrofluoric acid, ranks high in steel production, and produces considerable quantities of glass as well.

### Adequacy of Reserves

The increase in recent years in fluorspar production and consumption has raised some doubts as to the adequacy of fluorspar reserves. Estimates made in 1944 seemed to indicate that deposits then known would be adequate for 30 to 40 years even at high consumption rates. Reserves of approximately 15 million tons of high-grade ore were known to exist, 11 million of which were located in the Illinois-Kentucky area. This ore can be mined, however, only at higher costs than those ores which have been used in the past. Consequently, fluorspar producers have been attempting to develop better methods of beneficiation and consumers are attempting to find alternate sources of fluorine. So far, the former groups have been more successful than the latter. Several processes have been developed in recent years which offer definite improvement in recovery percentages and in lower costs.

Although experiments have been made with several cheaper substitutes for metallurgical grade fluorspar, no substitute so far has shown the same desirable fluxing or fusing qualities as fluorspar itself. Since the fluorspar used in fluxing a ton of steel costs only from six to ten cents, prices of low-quality substitutes would have to be considerably lower than fluorspar prices before substitution would be profitable.

Substitutes for fluorspar as an agent in the manufacture of nontransparent glass have been tried also, but have been found either too expensive or of considerably lower efficiency.

The use of fluorspar in the manufacture of hydrofluoric acid, far from diminishing, has increased to such an extent in recent years that it threatens to exceed steel production in the quantity of fluorspar used. A whole new branch of the chemical industry is developing around this powerful acid and the extremely active element it contains. Research is constantly developing methods of synthesizing new products from hydrofluoric acid. Insecticides and plastics are only two of the products which have been developed so far. Many others are in the experimental stage and the ultimate possibilities seem unlimited.

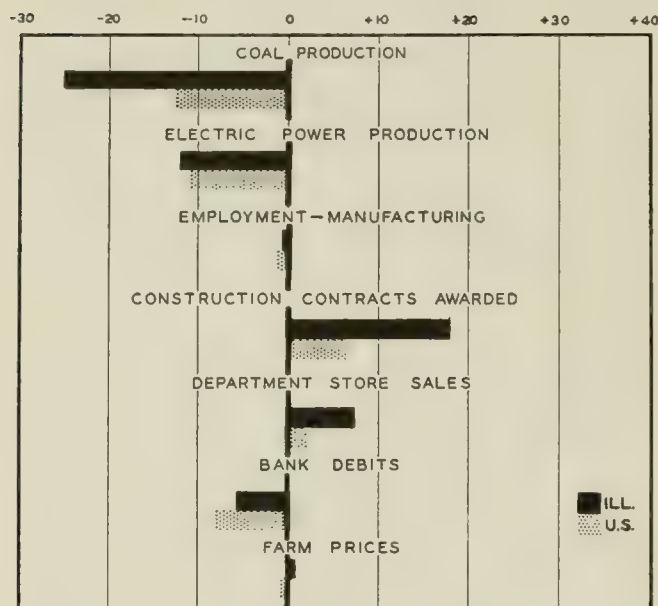
Fluorspar is, therefore, likely to remain one of our most indispensable resources and Illinois is likely to retain its position as one of the leading producers and consumers of this basic mineral.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes January, 1954, to February, 1954



## ILLINOIS BUSINESS INDEXES

Item	February 1954 (1947-49 = 100)	Percentage Change from	
		Jan. 1954	Feb. 1953
Electric power <sup>1</sup> .....	160.9	-12.1	+ 9.2
Coal production <sup>2</sup> .....	65.1	-25.3	-16.2
Employment — manufacturing <sup>3</sup> .....	104.6	- 0.7	- 6.8
Payrolls—manufacturing.....	n.a.		
Dept. store sales in Chicago <sup>4</sup> .....	108.0 <sup>a</sup>	+ 6.9	+ 0.9
Consumer prices in Chicago <sup>5</sup> .....	116.7	0.0	+ 2.5
Construction contracts awarded <sup>6</sup> .....	165.2	+17.3	+46.2
Bank debits <sup>7</sup> .....	131.4	- 5.7	+ 4.8
Farm prices <sup>8</sup> .....	107.1	+ 0.4	+ 5.4
Life insurance sales (ordinary) <sup>9</sup> .....	155.0	+11.1	+16.9
Petroleum production <sup>10</sup> .....	89.8	- 7.8	+ 5.5

<sup>1</sup> Federal Power Commission; <sup>2</sup> Illinois Department of Mines; <sup>3</sup> Illinois Department of Labor; <sup>4</sup> Federal Reserve Bank, 7th District; <sup>5</sup> U. S. Bureau of Labor Statistics; <sup>6</sup> F. W. Dodge Corporation; <sup>7</sup> Federal Reserve Board; <sup>8</sup> Illinois Crop Reports; <sup>9</sup> Life Insurance Agency Management Association; <sup>10</sup> Illinois Geological Survey.  
<sup>a</sup> Seasonally adjusted. n.a. Not available.

## UNITED STATES MONTHLY INDEXES

Item	February 1954	Percentage Change from	
		Jan. 1954	Feb. 1953
	Annual rate in billion \$		
Personal income <sup>1</sup> . . . . .	282.9 <sup>a</sup>	- 0.3	+ 0.7
Manufacturing <sup>1</sup> . . . . .			
Sales . . . . .	28.3 <sup>a</sup>	- 1.3	- 4.5
Inventories . . . . .	46.1 <sup>a, b</sup>	- 0.6	+ 3.4
New construction activity <sup>1</sup> . . . . .			
Private residential . . . . .	9.3	- 7.1	+ 1.7
Private nonresidential . . . . .	10.5	- 1.7	+ 6.9
Total public . . . . .	8.1	- 5.2	- 5.5
Foreign trade <sup>1</sup> . . . . .			
Merchandise exports . . . . .	13.1 <sup>c</sup>	-19.2	-15.7
Merchandise imports . . . . .	10.1 <sup>c</sup>	- 7.8	- 9.3
Excess of exports . . . . .	3.0 <sup>c</sup>	-42.7	-31.7
Consumer credit outstanding <sup>2</sup> . . . . .			
Total credit . . . . .	27.5 <sup>b</sup>	- 2.3	+ 7.7
Installment credit . . . . .	21.2 <sup>b</sup>	- 1.4	+11.4
Business loans <sup>2</sup> . . . . .	22.4 <sup>b</sup>	- 0.2	- 1.8
Cash farm income <sup>3</sup> . . . . .	22.8	-27.8	- 0.1
	Indexes (1947-49 =100)		
Industrial production <sup>2</sup> . . . . .			
Combined index . . . . .	123 <sup>a</sup>	- 1.6	- 8.2
Durable manufactures . . . . .	137 <sup>a</sup>	- 2.1	-11.6
Nondurable manufactures . . . . .	112 <sup>a</sup>	0.0	- 5.1
Minerals . . . . .	114 <sup>a</sup>	0.0	- 1.7
Manufacturing employment <sup>4</sup> . . . . .			
Production workers . . . . .	103 <sup>a</sup>	- 1.3	- 7.6
Factory worker earnings <sup>4</sup> . . . . .			
Average hours worked . . . . .	99	+ 0.3	- 3.4
Average hourly earnings . . . . .	135	- 0.6	+ 2.9
Average weekly earnings . . . . .	133	- 0.3	- 0.6
Construction contracts awarded <sup>5</sup> . . . . .	160	+ 6.0	+19.6
Department store sales <sup>2</sup> . . . . .	109 <sup>a</sup>	+ 1.9	- 2.7
Consumers' price index <sup>4</sup> . . . . .	115	- 0.2	+ 1.4
Wholesale prices <sup>4</sup> . . . . .			
All commodities . . . . .	111	- 0.4	+ 0.8
Farm products . . . . .	98	+ 0.1	0.0
Foods . . . . .	105	- 1.3	- 0.4
Other . . . . .	114	- 0.2	+ 1.1
Farm prices <sup>3</sup> . . . . .			
Received by farmers . . . . .	96	- 0.4	- 2.3
Paid by farmers . . . . .	113	0.0	+ 0.4
Parity ratio . . . . .	91 <sup>d</sup>	- 1.1	- 3.2

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for January, 1954; comparisons relate to December, 1953, and January, 1953.  
<sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1954					1953
	Mar. 27	Mar. 20	Mar. 13	Mar. 6	Feb. 27	Mar. 28
Production:						
Bituminous coal (daily avg.).....	1,112	1,125	1,157	1,043	1,129	1,394
Electric power by utilities.....	8,491	8,572	8,519	8,586	8,396	8,075
Motor vehicles (Wards).....	139.2	144.7	132.7	129.6	134.6	170.8
Petroleum (daily avg.).....	6,344	6,354	6,352	6,327	6,199	6,384
Steel.....	101.1	100.4	102.8	105.0	109.3	144.7
Freight carloadings.....	601	610	610	591	595	715
Department store sales.....	100	95	92	85	90	112
Commodity prices, wholesale:						
All commodities.....	110.8	110.6	110.6	110.7	110.5	110.0
Other than farm products and foods.....	114.4	114.3	114.4	114.3	114.3	113.4
22 commodities.....	90.3	87.9	88.8	87.8	87.9	90.3
Finance:						
Business loans.....	22,821	22,939	22,481	22,407	22,446	23,337
Failures, industrial and commercial.....	277	243	229	223	204	188

Source: Survey of Current Business, Weekly Supplements.



# RECENT ECONOMIC CHANGES

## Inventory Decline Continues

Businessmen continued to liquidate inventories in February. The book value of manufacturing and trade inventories after seasonal adjustment declined by \$350 million during the month to \$80.3 billion. The bulk of the decline centered in inventories of durable goods. Manufacturers' inventories were down by \$320 million to \$46.1 billion. Wholesale inventories increased slightly, mainly because of higher stocks of nondurables, and retail inventories were reduced moderately.

Business sales, after seasonal adjustment, rose by \$133 million during the month to \$46.6 billion. Manufacturers' sales continued to decline and were below January by about \$200 million. However, both wholesalers' and retailers' sales increased during the month. An encouraging element in the manufacturers' sales picture is that new orders for nondurables have been maintained about in line with sales. New orders for durable goods continued to run below sales although nearly all of the \$1-billion increase in new orders in February was confined to durable goods industries.

## Unemployment Still Rising

Unemployment increased by 54,000 in March to 3.7 million. The advance was the smallest that has occurred in six months, but it was nevertheless contrary to the usual March movement. In March of 1953 unemployment declined by 114,000 and a year earlier was down 282,000 during the month.

Employment increased by 45,000 during the month, as the number of farm workers rose by 170,000 to more than offset a 126,000-worker decline in nonagricultural employment. A year ago, nonfarm employment increased by 132,000. Federal officials indicated that the contraseasonal rise in unemployment and smaller-than-usual rise in employment reflected in part bad weather in some areas and

the late date of Easter this year. Census data in thousands of workers are as follows:

	March 1954	February 1954	March 1953
Civilian labor force.....	63,825	63,725	63,134
Employment.....	60,100	60,055	61,460
Agricultural.....	5,875	5,704	5,720
Nonagricultural.....	54,225	54,351	55,740
Unemployment.....	3,725	3,671	1,674

Initial claims for state unemployment insurance, which were at a postwar low in the first half of 1953, increased sharply after business activity ebbed late in the year. In January new claims totaled 1.9 million. In February and March new claims were still well above the same months of 1952 and 1953, and about the same as in 1949 (see chart). However, initial claims declined more than seasonally in the first quarter, supporting the Census data indication that the rise in unemployment has slowed considerably.

## Personal Income Declines Moderately

The decline in personal income which began after business activity slackened last August continued in February, but as in other recent months, the decline was moderate. At a seasonally adjusted annual rate of \$283 billion, personal income in February was down only \$800 million, a drop of less than one-half percent from January. Further reductions in industrial payrolls accounted for most of the decline, which was in part offset by a \$300-million increase in government transfer payments, mainly in the form of unemployment benefits.

Total personal income in the first two months of this year was higher than in the same months a year ago, but was \$4.6 billion below last July's peak annual rate of \$287.5 billion. Industrial payrolls in February were off \$6 billion from July of last year, but other types of income have remained approximately stable or have risen. Trade and service industry disbursements were only a half billion dollars below the July peak. Proprietors' and rental income was \$300 million higher in February than in July. Personal interest and dividend income has continued to expand, and in February was a billion dollars higher than in July. Transfer payments, the largest offset to declines in manufacturing payrolls, increased by \$1.5 billion over the seven-month period to \$15.0 billion in February.

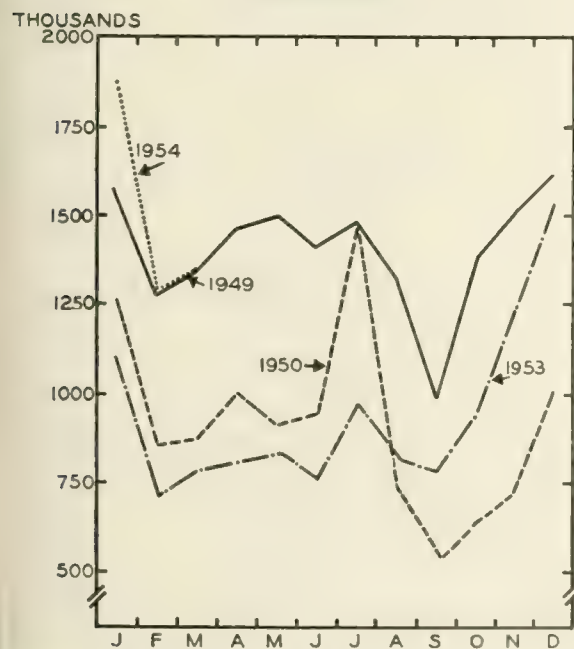
## Federal Construction Awards Down in 1953

Running counter to the trend in private construction contract awards, the value of contracts awarded for new construction financed wholly or in part with Federal funds dropped 40 percent in 1953 to \$2.8 billion. The sharp decline reflected fulfillment of many defense goals in 1951 and 1952, as awards in 1953 were still above those in other postwar years.

Declines from 1952 occurred in virtually all major types of construction. The largest part of the drop during 1953 was in Federal awards for industrial and military building. Awards for industrial construction decreased to \$603 million, about half the 1952 amount, mainly as a result of reduced commitments for expansion of atomic energy installations. A half-billion-dollar decline also occurred in contract awards for military warehouses and troop housing.

Electrification contracts, which were at a half-billion-

INITIAL CLAIMS FOR UNEMPLOYMENT INSURANCE



Source: U. S. Department of Labor

dollar peak in 1952 because of awards by the Tennessee Valley Authority for defense-related projects, were reduced 70 percent to \$157 million in 1953. Conservation and development projects were at a postwar low, and hospital construction awards were down a third from 1952 to \$132 million. There were increases over 1952 in awards for educational buildings, up more than 30 percent to \$172 million, and for public administration buildings and highways, both up only slightly. New awards for Federally aided highway construction, though showing only a minor increase, were at a record of \$1.1 billion.

## Freight Carloadings Decline

Freight carloadings declined more than seasonally in the first quarter of 1954, as the curtailment in freight traffic which began in the closing months of last year was accentuated by the slowdown in business activity. Carloadings in the first quarter of 1954 averaged 603,000 per week, 14 percent below the fourth quarter. The seasonal reduction in the first quarter of each of the three previous years was less than 10 percent. This decline followed a fourth quarter drop of 10 percent from the third quarter seasonal peak. In other recent years the fourth quarter decline amounted to less than 4 percent.

Not all of the current decline in freight carloadings may be attributed to slackened business activity and seasonal factors. Since the end of World War II the trend of carloadings from year to year has been generally downward, as more freight traffic was diverted to other means of transportation.

As shown by the accompanying chart, rail freight traffic increased somewhat following Korea, and temporarily produced a shortage of freight cars. New orders for cars increased substantially after June of 1950, with the result that car manufacturers' backlogs advanced from less than 20,000 cars at the beginning of 1950 to 120,000 by the end of the year. Unfilled orders reached a peak of 140,000 cars in mid-1951 but have declined steadily

since, as new orders consistently fell far short of output. During most of 1953 and in early 1954 the supply of cars was ample to meet traffic needs, and unfilled orders for new freight cars were again back to pre-Korea levels.

## Survey of Consumer Finances

Consumers were somewhat less optimistic about their financial and economic prospects at the beginning of 1954 than they were a year ago. This is the general conclusion to be drawn from the Federal Reserve Board's 1954 Survey of Consumer Finances conducted during January and February by the Survey Research Center of the University of Michigan. However, the Reserve Board stressed the fact that consumer sentiment at the beginning of the year does not necessarily correspond with actual buying behavior during the year.

A smaller proportion of consumers reported plans to purchase new houses, cars, and appliances this year than last. Planned expenditures for home improvements, on the other hand, were reportedly more numerous this year, but the average amount of anticipated expenditures was somewhat smaller. Intentions to buy refrigerators and television sets appeared to be considerably lower, whereas plans to purchase washing machines were about as numerous as a year ago. Relatively fewer consumers planned to buy new automobiles in 1954 than last year. The Board reported that for durable goods as a whole the frequency of plans to purchase one or more durable items in 1954 was less than in 1953, but greater than in early 1952.

## Economic Shock Absorbers

(Continued from page 2)

all be used, because the heaviest payments permitted in some states would hardly require the available shares of the total. Moreover, the peak rate of payments would be passed long before a major decline was ended. Similarly, the largest tax reductions would occur in the early stage of a decline, when the income base is highest, and the least effect will be felt when the situation is most serious.

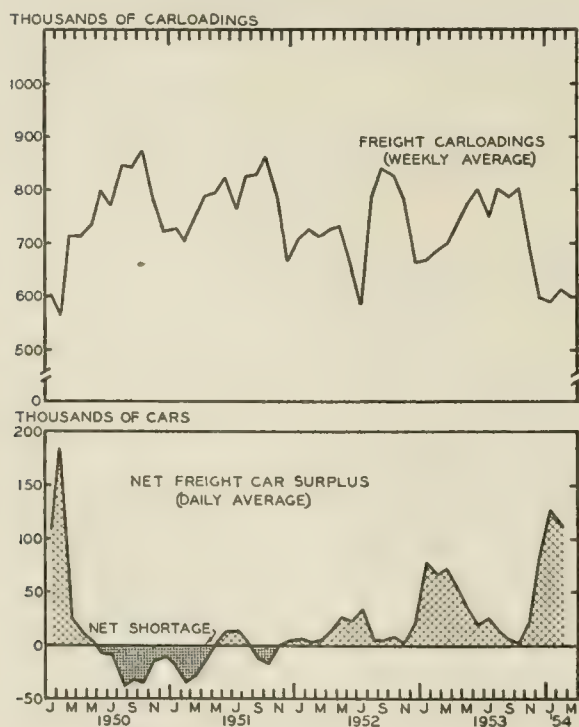
The danger of a more serious setback constantly exists in the luxury character of our economy. Its prosperity is dependent upon increasing use of durable goods by both consumers and business, and as the supply of such goods in use increases, new production becomes correspondingly vulnerable to more violent reversals. Moreover, business inventories of all kinds are still high, and the pace of liquidation is still very moderate. The prosperity of 1954 cannot offer any guarantee against a future spiral of liquidation, underreplacement, falling incomes, and continuing surpluses.

Stability evidently depends upon action beyond that provided by the automatic stabilizers. Government responsibility to provide the necessary action is now generally accepted. It is no longer a one-party idea, but there is a question whether the government will be able to act quickly or forcefully enough. Today, when the need is only moderate, an all-out scramble for additional measures to counter the decline is in progress. The current wave of optimism derives largely from the fact that enough is being done to make convincing the various official assurances that the government will act.

Optimism for the future may be misplaced, however, to the extent that it minimizes the need for preparedness. Shock absorbers may do a good job in smoothing the ride over the bumps; they can't level the ride up the hill and down into the valley.

VLE

### FREIGHT CAR LOADINGS AND DEMAND



Source: Association of American Railroads.



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### New Photocopy Paper

Using a new duplex copy paper, photocopies can now be made on both sides of a single sheet of paper. Manufactured by the American Photocopy Equipment Company, 1920 West Peterson, Chicago, Illinois, the new product was developed to meet the need for reproducing originals printed on both sides. It was designed to work with the Apeco one-unit dry photocopy machine. The new paper will reproduce material from any type of paper up to 11 inches wide.

### Population Gains

During 1953, the population of the United States including the Armed Forces overseas increased by about 2.7 million persons, or 1.7 percent. The growth in population has been unusually stable during the past several years, averaging slightly more than 2.5 million a year, a rate of about 1.7 percent. The continuing high level of births and a record low mortality rate were of major importance. More births (almost 4 million) occurred in 1953 than in any year to date and there were only 1.5 million deaths. Thus the natural increase in population (excess of births over deaths) was recorded at a rate of 15.3 persons per 1,000 population, the highest rate since

1947. Net civilian immigration — estimated at an average rate of about 1.5 persons per 1,000 population in 1953 — was somewhat lower than in previous years.

### Foreign Travel Expands

American residents spent almost \$1.3 billion on foreign travel during 1953, 10 percent more than the preceding year, according to the United States Department of Commerce. Of the total, \$383 million was paid for transportation and \$908 million was spent in foreign countries. Expenditures abroad amounted to \$303 million in Europe and the Mediterranean area, \$294 million in Canada, \$191 million in Mexico, \$79 million in the West Indies and Central America, and \$41 million in all other countries. Spending by Americans in the European and Mediterranean area — up more than 18 percent from 1952 — increased most. The rise was due primarily to an increase in the number of Americans traveling to Europe as tourist-class transatlantic air travel expanded.

### Fluorescent Pencil

A blacklight fluorescent pencil has recently been marketed by the Norco Manufacturing Company, 392 Bleecker Street, New York 14, New York. Its markings, which cannot be seen on light surfaces, will fluoresce a brilliant green under blacklight. Seven inches long with a 3/16-inch fluorescent lead compounded of a wax and stearate base, the "Brite-Line" pencils can be sharpened in a conventional pencil sharpener. They are encased in cedar wood and come with a plastic protector cap.

### The Farmer's Share of Food Costs

In 1953, the farmer's share of the consumer's food dollar averaged 45 percent of the retail value of a standard "market basket" of foods, or 4 percent less than in 1952, according to the Agricultural Marketing Service of the U. S. Department of Agriculture. The "market basket" contains the average quantities of farm-produced food products purchased for consumption at home by urban wage-earner and clerical-worker families in 1952. Although the farmer's 1953 share was substantially higher than in most pre-World War II years, it was the smallest portion since 1941. Since the end of the war, the farmer's percentage of the consumer's food dollar has varied from a high of 52 in 1946 to a low of 45 last year.

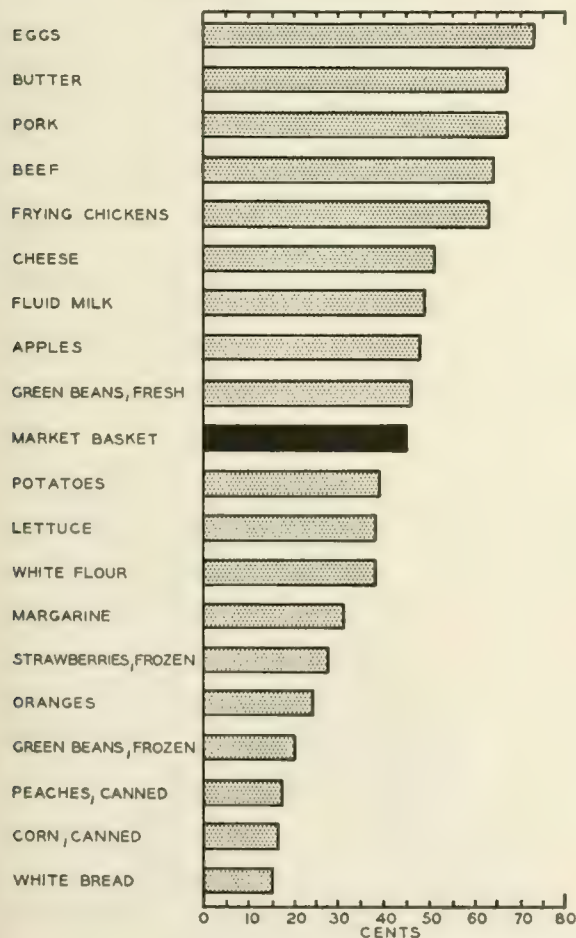
Considerable variation exists in this margin among different food products, as is shown by the accompanying chart. Farmers received the largest share of the retail value of their commodities from eggs, meats, and other animal products. In 1953, about 63 percent of the money spent by consumers for meat products and 49 percent of the retail value of dairy products went to the farmer. On the other hand, his share of the consumer's dollar was lowest for processed fruits and vegetables (20 percent), and for bakery and cereal products (22 percent).

### New Spotter of Spoiling Grain

A new instrument for detecting grain deterioration while it is in storage elevators is being made by Jones and Laughlin Steel Corporation under license from PTC

(Continued on page 9)

THE FARMER'S SHARE OF THE CONSUMER'S FOOD DOLLAR, 1953



Source: U. S. Department of Agriculture.

# POSTWAR TRENDS IN BUSINESS FAILURES

ROWENA WYANT, Analyst, Dun & Bradstreet, Inc.

As our economy shifts in the postwar period and as competition heightens, interest focuses with renewed intensity on how well businesses are weathering these changes. Trends in failures, as compiled by Dun & Bradstreet, Incorporated, provide one important answer, but naturally should be analyzed along with other economic indicators such as sales, inventory, price, production, and income trends.

## Number and Rate of Failures

With competition keen and hard selling the vogue, more businesses are finding it difficult to make the grade. The number of concerns failing<sup>1</sup> increased moderately, 16 percent, between 1952 and 1953 (see chart). However, mortality was not as heavy as in 1949 when a postwar peak was established and was only three-fifths the prewar 1939 toll. In the first two months of this year, the upturn in casualties has sharpened somewhat; a total of 1,793 occurred in January and February, 34 percent more than in the comparable period of last year.

The numerical count of the commercial and industrial failures tells only a partial story. They need to be related to the total business population. Out of every 10,000 listed enterprises in operation in 1953, only 33 succumbed with loss to creditors. This failure rate rose slightly from the 29 of 1952, but was exceeded twice in the postwar period, 1949 and 1950. The prewar casualty rate was considerably more severe, amounting to 70 in 1939. Despite increases from the wartime low of 4 failures per 10,000 concerns in 1945, the current mortality rate remains below that of any year from 1900 through 1943.

## Size of Liabilities

In size, failures have increased markedly in recent postwar years. The casualties in 1953 involved liabilities<sup>2</sup> of \$394,153,000, the largest volume since 1933. The number of concerns failing with liabilities of more than \$100,000 rose 48 percent from the previous year and were primarily responsible for the spectacular uptrend in liabilities in 1953. However, if adjustment is made for changes in the value of the dollar and in the size of the economy by relating dollars of liabilities to million dollars of gross national product in each year, the 1953 aggregate is a little under 1949 and only one-half the relative level in 1939. Although this adjustment is essential to long-term analysis, it should not lead one to discount wholly the fact that failure liabilities in 1953 climbed 39 percent above those in 1952. The National Bureau of Economic Research has found in its long and intensive studies of business fluctuations that failure liabilities are one of the most dependable "lead" factors in cyclical changes in economic activity.

<sup>1</sup> The Dun & Bradstreet failure record includes concerns involved in court proceedings or voluntary action likely to end in loss to creditors. Withdrawals from business in which there is no indication of loss to creditors are not included.

<sup>2</sup> Liabilities are defined for the purpose of the failure record as including all accounts and notes payable, and all obligations, whether in secured form or not, known to be held by banks, officers, affiliated companies, supplying companies, or the government.

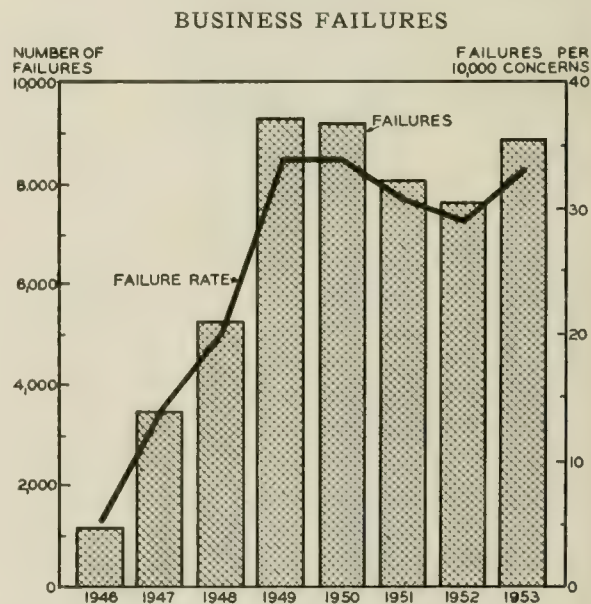
## Trends by Lines of Business

In each of the five major functions, i.e., manufacturing, wholesaling, retailing, construction, and commercial service, there was a rise in failures last year. The toll among construction contractors reached a record high, but in other operations remained below the 1949 level. In the building boom after the war, many skilled or semi-skilled construction workers started businesses of their own. Lacking experience in management, these new contractors were unable to cope with heavy operating costs and mounting competition. Inability to estimate jobs accurately appears as the commonest form of incompetence in building trades failures.

The uptrend in manufacturing casualties centered largely in the machinery and transportation equipment industries, but did not reach the peaks established in the early postwar years. Many machinery manufacturers who were able to survive when military urgency made volume and speed in production more important than cost factors found themselves unable to handle the situation in the postwar period when economic considerations once more predominated. A notable upturn occurred in 1953 in one other manufacturing industry, textiles and apparel, where mortality loomed the highest since 1940.

In retail trade, failures were heavier in all lines except food stores and eating and drinking places. The automotive group suffered a 72 percent rise in 1953 to the severest toll since 1941. Selling became tough in this field early in the year when automobile companies stepped their output up to record levels. This led to casualties among dealers newly started and among dealers handling used cars. Failing furniture, appliance, and radio and television retailers climbed 66 percent last year to an all-time high. Top-heavy inventories and difficulties in collecting receivables are reported as primary contributing factors.

Related to the total operating concerns, retail dealers usually fail at a lower rate than either wholesalers or



Source: Dun & Bradstreet, Incorporated.



manufacturers. For instance, 29 concerns per 10,000 succumbed in retail trade in 1953 as compared with 49 in wholesaling and 60 in manufacturing. A slow, gradual increase has characterized the trend in retail failure rates in the postwar years. In contrast, manufacturers' casualty rates took a sharp upturn early in the period to a peak in 1949, then slackened for two years, and have now resumed a moderate increase.

## **Trends by Geographic Regions**

All areas except the New England States reported more failures in 1953 than in 1952. Only in the Middle Atlantic Region, however, did mortality reach a postwar high; other geographic districts did not equal their 1949 or 1950 tolls. The uptrend was very slight in the past year in the East North Central States, principally because of the contrary declines in Illinois and Michigan; it was exceedingly sharp in the South Atlantic, East South Central, and West South Central States. In the latter area, casualties jumped 87 percent between 1952 and 1953, probably reflecting the serious effects of the drought.

Comparison of each region's share of business failures with its portion of the total business population reveals some interesting differences in economic development. Only three of the nine major areas have had in the postwar years a percentage of failures exceeding their percentage of total listed enterprises: the New England, Middle Atlantic, and Pacific States. New England has been affected by a number of factors that lifted its portion of failures above its portion of total businesses. In recent years, this region has had less population growth and economic expansion than the nation as a whole. In addition, there is an above-average concentration of manufacturing industries whose failure rates are higher than failure rates in other lines. Many "one-industry" towns are located in New England. Difficulties of the principal industry in such communities can set off a chain reaction of serious problems for smaller businesses that are dependent directly or indirectly on the operations of that one industry. Some of the same problems beset the Middle Atlantic States. The economy of this region is only slightly less mature than that of New England; however, it has more young, rapidly growing industries. Concentration of the style-sensitive apparel industry in New York and of hard-pressed mining communities in Pennsylvania has exerted upward pressure on the level of failures in this area.

While New England has been confronted with the problems of advanced economic age, the Pacific States have been experiencing growing pains. Population shifts and the resultant changes in regional economy move in fits and starts and exaggerate the normal fluctuations in business activity. Rapid growth is reflected in a high ratio on the West Coast of new concerns that are most vulnerable to failure.

Throughout the 1946-53 period, the percentage of total United States casualties occurring in the East North Central Region has remained below its share of total operating enterprises. Last year, this area accounted for about 20 percent of the nation's business population but little more than 10 percent of the country's failure total.

## **Age of Failing Concerns**

The first five years are the hardest. Approximately three out of five of the businesses which succumbed in 1953 were in their first five years of operation. An even

larger proportion of casualties, 78 percent, was concentrated in this young age group in 1947. Since that year, a steady rise has prevailed in the failures among slightly older concerns, six to ten years of age, undoubtedly reflecting the return to a normal age distribution of the business population following the big boom in new enterprises directly after the war.

Among the major industry and trade groups, the age pattern does not vary much from year to year. A greater portion of the retail toll regularly centers among young concerns; in fact, 45 percent of the 1953 retail casualties were three years old or less. On the other hand, some 20 percent of the manufacturing and wholesaling failures were enterprises which had survived ten years or more.

## **Causes of Failures**

Despite changing trends in business mortality by regions and by lines of business in the postwar period, the underlying reasons for failure have remained the same. Ever since Dun & Bradstreet began an analysis of causes in 1949, the pattern has not varied appreciably. In nine cases out of ten, a failure can be traced directly to lack of experience or lack of aptitude for running a business. The outward manifestations of these two factors may be reflected in inability to cope with conditions which result in inadequate sales, inventory problems, excessive fixed assets, receivables difficulties, competitive weakness, and so on. Of course, these surface indications of basic inexperience or incompetence vary considerably not only from year to year but between different methods of operation and lines of business.

Among the underlying causes, the percentage of failure cases resulting from lack of experience in the line of business or in management generally has declined steadily during the 1949-53 period studied. This reflects an increase in mortality among older concerns, which was described in the preceding section. As more older enterprises, in which experience is present, succumb, the lack of competence becomes a more important factor, swinging from one-third of the cases in 1949 to one-half in 1953. Both inexperience and inefficiency were most frequently reflected in inadequate sales and competitive weakness.

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## **Business Briefs**

(Continued from page 7)

Cable Company. Since most deterioration is accompanied by a slight rise in temperature, the new product is a form of thermometer. It consists of a flexible steel wire rope housing a plastic-coated copper circuit with devices every five feet to measure temperature changes. This cable is placed in an empty bin after which grain is poured in surrounding it. More than one thermometer can be used in large bins. An electrical circuit extends from each cable to a central reading point where rotary switches make connections to each of the measuring devices along the cable. Thus the farmer can read the temperature at each point along the cable and quickly detect and arrest the spreading of deterioration which takes about 15 percent of the nation's annual seven-billion-bushel grain crop.

The oil industry may be able to use the new item to watch the temperature at various levels in stored petroleum products. The temperature in masses of curing concrete, such as dams, can also be checked with the cable.

## LOCAL ILLINOIS DEVELOPMENTS

Most Illinois business indicators declined in February because of seasonal factors and fewer working days, but activity remained above the same month a year ago. Construction contracts awarded, life insurance sales, and electric power production were each up more than 9 percent from February, 1953. Smaller gains were registered for department store sales in Chicago, bank debits, farm prices received, petroleum production, and business loans. Indexes below year-ago levels included coal production, manufacturing employment, average weekly earnings, cash farm income, and steel production.

### Unemployment Compensation Off in 1953

The number of unemployment compensation beneficiaries in Illinois dropped 14 percent in 1953 to 242,422, according to Roy F. Cummins, director of the State Department of Labor. An additional 140,000 claimants did not receive benefits last year because of re-employment within six days or because of ineligibility caused by wage credits of less than the \$400 minimum.

Total unemployment compensation paid in 1953 amounted to \$51.3 million as compared with \$57.6 million in the preceding year. The average total payment was \$211.69 and the average weekly payment was \$23.37. More than 35,300 workers exhausted their benefit rights in 1953 as compared with 44,845 in 1952.

## Farm Prices

The index of prices received by Illinois farmers fell 1 percent in the month ending March 15, 1954, to 272 (1910-14 = 100). However, this was 2 percent above March, 1953. The drop from February was primarily the result of lower prices for livestock and livestock products which more than offset the gains for most crops. The poultry and eggs index decreased most, more than 9 percent.

Compared with a year ago, prices received for meat animals rose 10 percent but dairy products prices were down 9 percent and poultry and egg prices declined 17 percent. However, prices received from food grains, fruit, and oil-bearing crops were up from last year (2 percent, 8 percent, and 16 percent, respectively) and feed grains and hay remained about the same.

Illinois farmers were substantially better off in February than the average farmer in the nation. The parity ratio of prices received to prices paid on March 15 stood at 96 in Illinois (up 2 points from a year ago) whereas for the United States it was only 90 (down 4 points from 1953).

## Birth Rate Maintains High Level

Preliminary estimates of the birth rate in Illinois during 1953 indicate that it was only slightly less than the 1952 record of 205,444 babies. According to the State Department of Public Health, there were about 205,000 births last year. In Chicago, 1 percent fewer babies were born in 1953 than in the previous year whereas for the remainder of Illinois the birth rate was 1 percent higher than in 1952.

Approximately two births occurred for every death last year in the State. About 96,000 deaths were reported, 1,800 more than in 1952. The increase last year was primarily accounted for by a growing incidence of the cardio-vascular-renal diseases (the degenerative processes of aging). This group contains the leading killer of

all, heart disease, which took 5 percent more lives in 1953 than in 1952. Approximately 43 percent of all deaths last year were the result of some form of heart ailment.

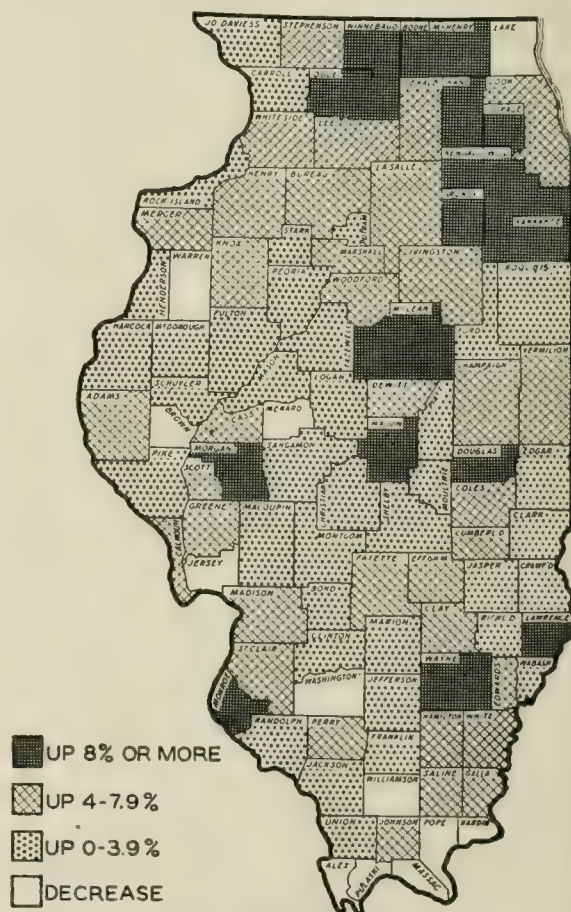
The second most frequent cause of death in the State was cancer, which was responsible for 16 percent of all deaths in 1953. This was about the same proportion as was reported in 1952. Among the infectious diseases, tuberculosis caused 13 out of every 1,000 deaths last year (about 20 percent less than in 1952), whereas pneumonia and influenza accounted for 4 percent of all deaths, a sharp increase over the preceding year. However, poliomyelitis was a much smaller threat—only half as many cases were reported in 1953 as in 1952 and the death toll declined by a corresponding ratio.

## Retail Sales Increase

Estimated retail sales in Illinois rose during 1953 to a new high of \$10.7 billion, up 6 percent from the preceding year. Sales in Cook County, accounting for more than half the total, increased 8 percent, whereas the remainder of the State gained only 4 percent. The greatest improvements over the preceding year were made in DuPage and Lawrence counties, sales in each of which rose almost one-fourth. In all, ten counties reported increases of one-tenth or more. The chart shows that only 12 counties registered decreases from 1952 levels.

### ESTIMATED RETAIL SALES

Percentage Change, 1952 to 1953



Source: Illinois Department of Revenue.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

February, 1954

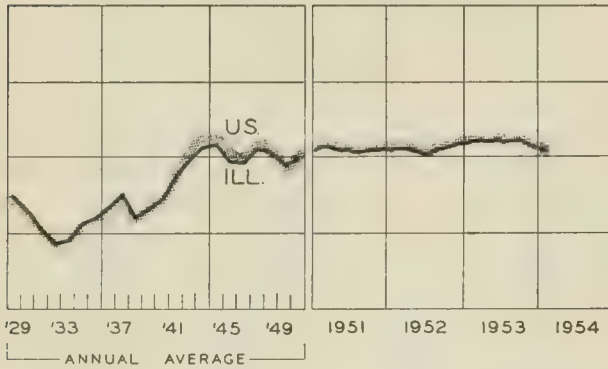
		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b>							
ILLINOIS		\$25,334 <sup>a</sup>	958,639 <sup>a</sup>	\$511,130 <sup>a</sup>		\$11,486 <sup>a</sup>	\$13,099 <sup>a</sup>
Percentage Change from	Jan., 1954.	+76.9	-2.0	-23.1	n.a.	-5.7	+3.9
	Feb., 1953	+40.6	-2.0	-3.7	+1	+4.8	+13.4
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b>							
Chicago		\$11,855	747,221	\$384,221		\$10,506	\$11,309
Percentage Change from	Jan., 1954.	+22.8	-1.8	-20.8	n.a.	-5.6	+3.3
	Feb., 1953	-16.2	-2.5	-1.7	+1	+5.0	+12.6
<b>Aurora</b>							
Aurora		\$ 193	n.a.	\$ 6,761		\$ 41	\$ 98
Percentage Change from	Jan., 1954.	+25.3		-30.8	n.a.	-14.6	-7.0
	Feb., 1953	-7.2		-14.6	-9	+2.7	+5.3
<b>Elgin</b>							
Elgin		\$ 182	n.a.	\$ 4,648		\$ 26	\$ 82
Percentage Change from	Jan., 1954.	+6.4		-35.7	n.a.	-8.5	-2.5
	Feb., 1953	-12.9		-14.1	-1	+0.9	-5.8
<b>Joliet</b>							
Joliet		\$ 304	n.a.	\$12,365		\$ 54	\$ 72
Percentage Change from	Jan., 1954.	-55.5		-22.9	n.a.	-8.0	-27.4
	Feb., 1953	+106.8		+7.1	-5	+4.1	-0.4
<b>Kankakee</b>							
Kankakee		\$ 216	n.a.	\$ 4,629		n.a.	\$ 33
Percentage Change from	Jan., 1954.	+237.5		-30.9	n.a.		+1.8
	Feb., 1953	+4.3		-7.2	n.a.		+12.4
<b>Rock Island-Moline</b>							
Rock Island-Moline		\$ 884	19,661	\$ 8,627		\$ 70 <sup>b</sup>	\$ 153
Percentage Change from	Jan., 1954.	+344.2	-2.0	-25.7	n.a.	-8.6	-4.0
	Feb., 1953	-25.1	-7.5	-10.6	n.a.	-0.8	+5.9
<b>Rockford</b>							
Rockford		\$ 491	31,939	\$14,798		\$ 123	\$ 203
Percentage Change from	Jan., 1954.	-65.2	-1.3	-28.3	n.a.	-2.8	+7.2
	Feb., 1953	+17.2	-6.9	-21.2	-6 <sup>c</sup>	-4.1	+9.6
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b>							
Bloomington		n.a.	7,128	\$ 4,736		\$ 52	\$ 98
Percentage Change from	Jan., 1954.		+0.8	-27.5	n.a.	-7.2	+21.4
	Feb., 1953		+7.7	-4.6	n.a.	-1.0	-4.4
<b>Champaign-Urbana</b>							
Champaign-Urbana		\$ 57	9,075	\$ 6,427		\$ 51	\$ 90
Percentage Change from	Jan., 1954.	+42.5	-5.3	-29.2	n.a.	-6.9	+15.7
	Feb., 1953	-47.7	+2.4	-5.9	n.a.	+13.7	+17.6
<b>Danville</b>							
Danville		\$ 136	9,446	\$ 5,179		\$ 39	\$ 53
Percentage Change from	Jan., 1954.	+27.1	1.1	-32.8	n.a.	-5.5	+1.2
	Feb., 1953	+12.4	+13.1	-13.7	-3	-0.5	+18.9
<b>Decatur</b>							
Decatur		\$ 556	22,322	\$ 8,704		\$ 83	\$ 107
Percentage Change from	Jan., 1954.	+375.2	+3.1	-34.0	n.a.	-14.9	+5.5
	Feb., 1953	+311.9	+1.7	-3.5	+6 <sup>c</sup>	+7.4	+9.9
<b>Galesburg</b>							
Galesburg		\$ 123	6,731	\$ 3,603		n.a.	\$ 29
Percentage Change from	Jan., 1954.	+846.2	+0.5	-32.4	n.a.		-17.9
	Feb., 1953	+112.1	+2.6	-7.7	n.a.		-2.3
<b>Peoria</b>							
Peoria		\$ 412	42,499 <sup>c</sup>	\$14,971		\$ 172	\$ 210
Percentage Change from	Jan., 1954.	+64.1	-4.1	-26.2	n.a.	-2.7	+7.9
	Feb., 1953	+10.2	-2.9	-9.1	-4 <sup>c</sup>	+5.0	+12.0
<b>Quincy</b>							
Quincy		\$ 434	7,604	\$ 4,171		\$ 33	\$ 75
Percentage Change from	Jan., 1954.	+1,105.6	+1.0	-32.8	+1	+0.2	-4.8
	Feb., 1953	+338.4	+2.1	-5.9	+1	+7.0	+9.5
<b>Springfield</b>							
Springfield		\$9,167	25,905 <sup>c</sup>	\$11,122		\$ 86	\$ 221
Percentage Change from	Jan., 1954.	+8,158.6	-7.3	-30.4	n.a.	-10.0	-1.3
	Feb., 1953	+2,268.7	+6.8	-11.3	n.a.	+6.4	+20.1
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b>							
East St. Louis		\$ 286	12,128	\$ 8,037		\$ 116	\$ 56
Percentage Change from	Jan., 1954.	-70.4	-5.7	-28.3	n.a.	-7.6	-24.1
	Feb., 1953	+62.5	-5.8	-11.4	n.a.	+4.6	+6.9
<b>Alton</b>							
Alton		n.a.	11,097	\$ 4,329		\$ 33	\$ 31
Percentage Change from	Jan., 1954.		-4.7	-34.7	n.a.	-9.3	+13.7
	Feb., 1953		+3.0	-4.8	n.a.	+11.3	+22.0
<b>Belleville</b>							
Belleville		\$ 38	5,884	\$ 3,804		n.a.	\$ 40
Percentage Change from	Jan., 1954.	-88.8	-7.8	-28.1	n.a.		-0.5
	Feb., 1953	-9.5	+13.9	-2.5	n.a.		+14.1

<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for January, 1954, the most recent available. Comparisons relate to December, 1953, and January, 1953. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

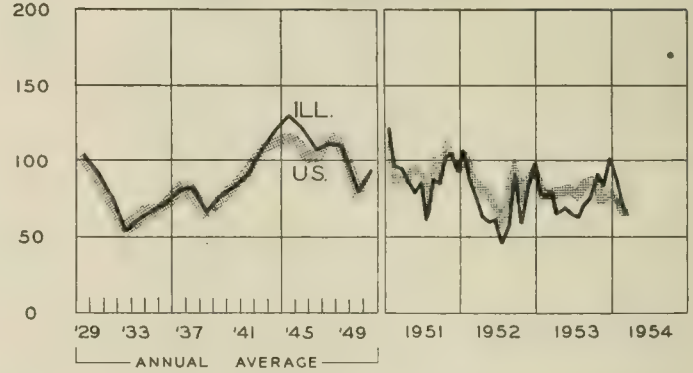
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

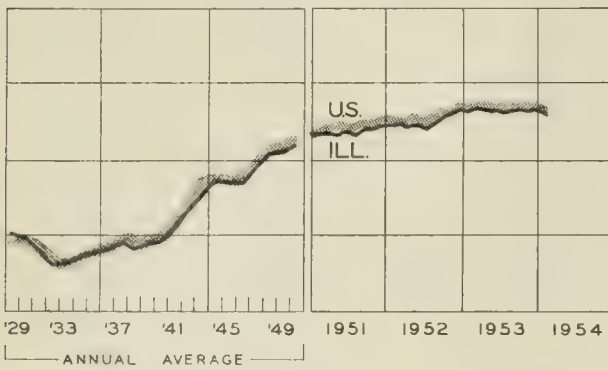
EMPLOYMENT - MANUFACTURING



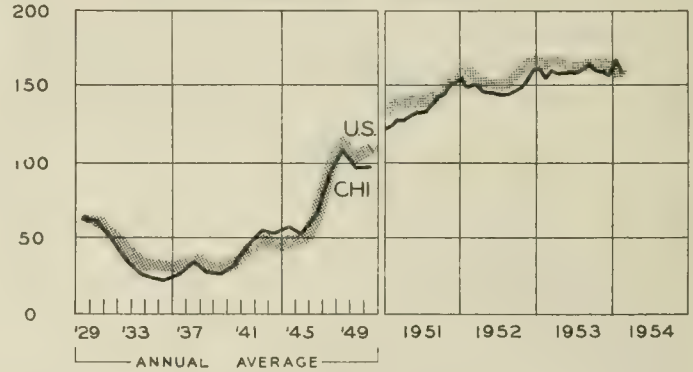
COAL PRODUCTION



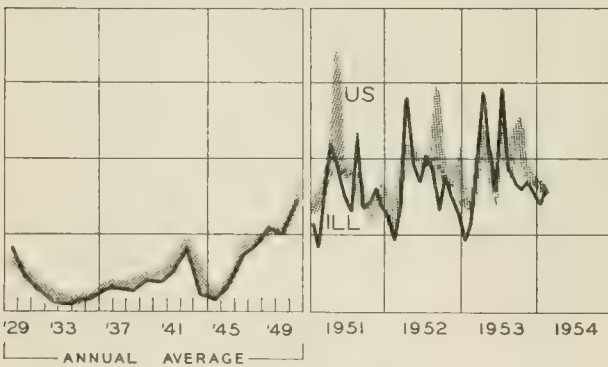
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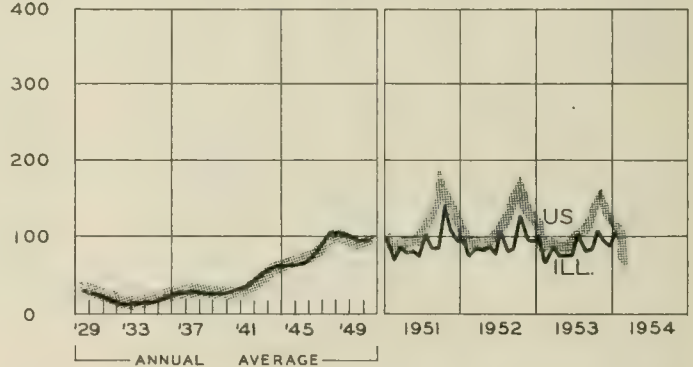
BUSINESS LOANS



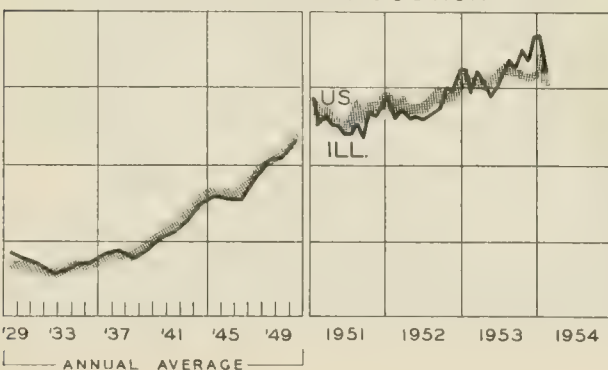
CONSTRUCTION CONTRACTS AWARDED



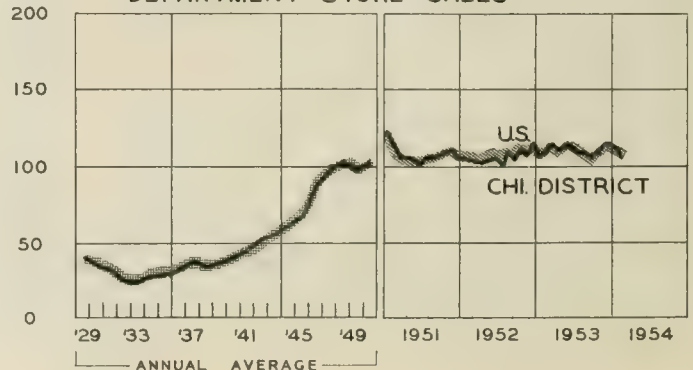
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

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## HIGHLIGHTS OF BUSINESS IN APRIL

Business activity continued mixed in April. Although the Federal Reserve index of industrial production as a whole declined further, scattered sectors of industry reported upswings in demand. Activity in raw materials picked up considerably largely on the basis of the troubled situation in the Far East, and steel production practically leveled off at 68 percent of capacity.

Retail sales this Easter were well maintained, almost up to last year's level. Sales of furniture and major appliances toward the end of the month were well above a year ago. Indicative of this continued good business have been firmer prices at the wholesale level.

### Unemployment Declines

A favorable sign on the business scene in April was the first reported decline in unemployment since last October. The total number of people out of work and actively seeking employment during the week ended April 10 was estimated at 3.5 million, about 260,000 below the March figure. Seasonal upturns in farm construction, and other outdoor activities, combined with the pre-Easter rise in demand for retail help, were considered to be the main factors accounting for the decline.

The employment picture also improved in April, with the number of people holding nonfarm jobs rising 500,000 to 60.6 million. Most of the increase appeared to be in farm, trade, and construction work, with little if any increase in employment in manufacturing industries.

### Construction Activity Increases

Up seasonally from March, construction activity in April set a new record for the month at \$2.8 billion. This was a little over 1 percent above the previous high for the month, established last April, and represented increased levels of activity in both public and private construction programs.

Expanded commercial building and public utility construction accounted for the main increase from last year in private construction outlays. Private home building was down slightly, though up 10 percent from the March level. The principal factor in the April rise in public construction outlays was a more-than-seasonal spurt in highway building.

New construction expenditures during the first four

months of this year exceeded those in the corresponding 1953 months by 1.5 percent, with a 3 percent increase in private outlays more than offsetting a 2 percent decline in public spending.

### Inventory Holdings Decline

Business inventories on a seasonally adjusted basis declined somewhat further in March to \$80.0 billion by the end of the month. As in previous months, almost all of the decline was in durable goods, though at the manufacturers' level stocks were lower, on a seasonally adjusted basis, among both durable and nondurable goods producers.

Businessmen's sales on a seasonally adjusted basis rose slightly in March to \$46.9 billion primarily as a result of higher sales at the manufacturers' level. Nevertheless, sales in March were considerably below the \$50.1 billion of goods (seasonally adjusted) sold by all business concerns in March of last year. As a result, the inventory-sales ratio was down from a year ago — on the average, businessmen's stocks this March were sufficient for 1.7 months' sales at the March rate whereas stocks last March would have been sufficient for 1.6 months' sales at that time.

### Manufacturers' Profits in 1953

Manufacturers as a whole made out better in 1953 than they did in 1952, though profits in the fourth quarter declined. Profits after taxes amounted to \$11.3 billion last year, 6 percent more than in 1952. Sales in 1953 rose to a record of nearly \$266 billion, and stockholders' rate of return on equity after taxes was estimated at 10.4 percent; in 1952, the rate of return was 10.2 percent.

Eighteen of the 23 major industry groups registered profit increases from 1952 to 1953. Iron and steel earnings rose the most, up 33 percent, but this was partly because of depressed earnings in the industry in 1952 as a result of the steel strike. Other industries reporting sharp gains in earnings were transportation equipment (other than automobiles) and tobacco. At the other end of the scale, lumber companies suffered the largest drop in earnings, 18 percent, and profits of manufacturers of machinery, other than electrical, were also down substantially, by 11 percent.

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## Repeating 1929?

News reports indicate that the stock market has soared to a new quarter-century peak. Not since the panic days of late 1929 have prices been so high.

The question raised by this uptrend is whether the market may be again running to excesses that can only end in collapse. It is a question that consoles the bears and dampens the enthusiasm of the bulls. The facts, however, seem to warrant a negative answer. There are no signs of speculative fervor, hardly any carrying of stocks on credit by weak holders. Brokers' loans are actually smaller than they were a year ago. The market is dominated by strong investors who prefer stocks for the high yields they provide. Aside from the level of prices, nothing is comparable with the 1929 situation.

Yet, the doubt persists. The current move has run for eight months and has brought the Dow-Jones industrial price index up a full fourth from the low of last September. Why, and how long can it continue?

### Why the Market Is Strong

There are a number of factors underlying the market advance. First is the changed appraisal of business prospects. Last summer, many expected the recession to be serious. Now the economy seems to be touching bottom, with activity still above everything but last year's peak. There may be some minor elements of overoptimism in the new look, but the basic elements of strength that have steadied the economy through the inventory reversal substantially justify this view. Earnings will be lower, but still at a prosperity level. Dividends are running more than 10 percent above last year.

Tax changes also provide a stimulus. On the personal side, tax cuts not only increase the portion of consumers' income free for spending, they provide an increment of investment funds. On the corporate side, they cushion the decline in earnings. Some of the fastest rising stocks in recent months have been those whose earnings are increased by exemption from the excess profits tax; increased dividends by some of these companies have firmed up profits expectations.

The proposal to cut taxes on dividend income may also have contributed something. It would represent a kind of risk-free windfall, or bonus, and make stocks more attractive in comparison with other investments. The chances of its passage, however, are widely dis-

counted. Tax bills are usually rewritten in the Senate, and there is little to recommend measures that needlessly increase the Federal deficit when the government has to contend with rising unemployment.

Another favorable factor has been the reversal in interest rates. With the shift from a hard-money back to an easy-money policy and the decline in demand for business and installment loans, interest rates have fallen sharply since last summer, and a continuing surplus of investment funds seems to be in prospect. The steady decline in interest rates on high-grade bonds has tended to keep them well below dividend yields despite the rise in stock prices. To some extent that rise was merely capitalizing dividend yields at a lower interest rate.

Furthermore, investors have been given confidence by reassurances from Washington that action will be taken to counter any economic decline. To date, such action has been confined mainly to tax cutting; but other measures have been proposed, and some increases in appropriations, like that for road building, seem assured.

Finally, there is a belated tendency to correct an undervaluation of stock prices that has persisted in varying degree since the market break of 1946. The depression-mindedness that has dominated attitudes throughout the postwar period—and especially the attitude of professional traders and speculators—has seemingly become less acute. The swing in sentiment has progressed in recent months with the easing of fears of both inflation and deflation. The economy is no longer under pressure of demand in excess of capacity, but prices have held steady. It appears that the pace of activity is at least partly independent of the temporary stimulus of war programs. Hence, uncertainty no longer takes the same toll in discounted security values.

### How Far Can the Market Go?

Two other closely related aspects of the current market may be noted: First, the market is not really high; and second, it is primarily an investors' market, with speculation almost completely ruled out.

The appearance of height in the market is created partly by the index of prices through which it is viewed. The most widely used indexes are heavily weighted with high-quality, investment-grade stocks, and this is particularly true of the Dow-Jones industrial index. These "blue chips" are the stocks that have been surging ahead. The mine run of stocks—mostly companies of less outstanding quality and in less favored industries—are also up somewhat from their 1953 lows, but they mostly remain well under earlier postwar highs.

This pattern of prices in the market has been determined largely by the fact that the public has not come back into the market. Most people have tied up their savings in other forms and left the market to the professional investors and speculators. This is in sharp contrast to the 1920's, when anyone with savings could get in. Then, for example, the home buyer typically held his house on a mortgage due after a fixed period of years, and his current savings could not only be put in the market, but could be greatly magnified by trading on low margins. Today, the home buyer pays off the mortgage month by month. Many of his other purchases are on the installment plan, and his life insurance policy also ties up income in this way.

Of those who still have a surplus of liquid funds, many are content to turn their investment problems over

(Continued on page 6)



## **GLASS AND GLASSWARE**

The manufacture of glass was one of the earliest enterprises undertaken by America's settlers. The first glass factory in what was later to be the United States is believed to have been constructed in 1608. In spite of its early start, the industry was never really successful during the colonial period. The main reasons for this appear to be the lack of demand among the rugged frontierspeople and the lack of the skilled labor essential to the successful production of glass. The small quantities of glass demanded could be satisfied by imports of higher-quality, lower-priced English glass.

Despite frequent attempts to establish factories in Virginia, New York, Massachusetts, and Pennsylvania, it was not until imports from Europe were cut off by the Revolutionary War that glass was produced in large quantities in the United States. The wave of imports that followed the return of peace practically wiped out the young industry, however, and during the closing years of the century it was only with the granting of exclusive rights of manufacture, bounties, and tariffs on foreign goods that most glass factories were able to remain in operation.

Although the glass industry grew from 33 plants in 1820 to 317 plants in 1890, little of interest occurred either in the manufacturing process or in the products themselves. Although some phases had been improved and partially mechanized as early as 1890, there was little change in the basic process. During the last decade of the century technological change became more rapid and was maintained at a high tempo for the next twenty or thirty years. For instance, the Owens bottle machine, invented in the late 1890's, represented one of the most far-reaching improvements found in any craft. Invented by Michael J. Owens and first placed in commercial use in 1903, the machine almost completely mechanized the bottle-blowing process. By 1920, this operation had been perfected to such an extent that almost any kind of bottle could be made by machine both better and cheaper than in 1890.

The mechanization of the pressed and blown glass industry was less striking. This segment of glass manufacturing had been partially mechanized as early as 1890 but the introduction of machines was spread over a longer period of time.

### **Industry Moves to Illinois**

The first glass factories were located in the more populous eastern states, but as the frontier pushed westward, the glass industry followed. It was during the Civil War period that the first glass factory was built in Illinois. The location of large supplies of coal in Illinois was an important factor in the growth of the industry. Glassmaking ingredients must be melted and maintained in this form for long periods before the batch is ready for working. Consequently, location near a supply of fuel is important. Other materials used in glassmaking which were available in Illinois in large

quantities were limestone, oxide of lead, and glass sand, the basic ingredients of glass.

Under these conditions, the industry grew rapidly. Records show no glass factories in Illinois in 1860, two in 1870, and seven in 1880; in 1947 there were 11 establishments manufacturing glass and 86 factories making various products from glass purchased from other firms. During the interval from 1870 to 1947, the value of glass shipments grew from \$146,000, about 1 percent of United States production, to more than \$100 million, about 10 percent of the nation's total.

Of the 97 firms in the glass industry in Illinois in 1947, by far the largest number, 86, were engaged in the production of commodities such as mirrors, mosaic glass, glass watch crystals, safety glass, and glass novelties from purchased glass. Firms in this industry shipped products valued at over \$31 million, more than any other state except Ohio.

Another important branch of the industry is made up of firms engaged in manufacturing glass containers. Although there are only seven Illinois firms in this group, the value of their products was over twice as large as that of the previous group. Over \$70 million of goods was shipped by these firms in 1947, a volume exceeded only by that of Pennsylvania.

Only one firm is engaged in the manufacture of flat glass and three in the manufacture of pressed and blown glass. Most of the pressed and blown glass products made in Illinois are produced by firms working with purchased glass.

### **Competition Strong**

The glass industry has in recent years felt the increasing pressure of competition of other materials such as paper, plastic, and metals. In spite of this pressure, business has grown steadily in the postwar years. Production of glass containers amounted to almost 17 billion units in 1953, nearly a billion units above the previous peak in 1951.

The latest figures for pressed and blown glassware and flat glass indicates that 1952 was considerably better than 1951. Radio and television tube sales, which amount to more than \$100 million annually, were about 5 percent above 1951 and indications are that 1953 was even better.

The important factors in the high levels of demand in the past few years have been the large amount of construction activity, the growth of the television industry, and the high levels of business activity in general. Another factor that has been important is the development of new products such as the throwaway bottle which has put the glass bottle back in competition in many fields which had been taken away by the metal can and the cardboard carton.

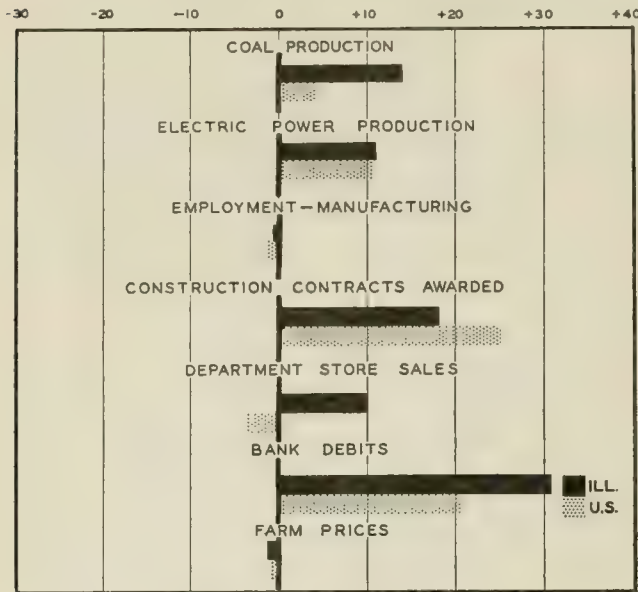
Fiber glass, another recent development, has had relatively small impact on the glass industry so far, but promises to be of considerable importance in the future.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes February, 1954, to March, 1954



## ILLINOIS BUSINESS INDEXES

Item	March 1954 (1947-49 = 100)	Percentage Change from	
		Feb. 1954	March 1953
Electric power <sup>1</sup> .....	178.5	+11.0	+10.7
Coal production <sup>2</sup> .....	74.3	+14.0	-6.7
Employment—manufacturing <sup>3</sup> .....	103.8	-0.8	-8.2
Payrolls—manufacturing.....	n.a.		
Dept. store sales in Chicago <sup>4</sup> .....	97.0 <sup>a</sup>	-10.2	-7.6
Consumer prices in Chicago <sup>5</sup> .....	116.7	0.0	+2.5
Construction contracts awarded <sup>6</sup> .....	195.1	+18.1	-0.1
Bank debits <sup>7</sup> .....	171.7	+30.7	+5.1
Farm prices <sup>8</sup> .....	105.9	-1.1	+2.3
Life insurance sales (ordinary) <sup>9</sup> .....	195.4	+26.0	+18.1
Petroleum production <sup>10</sup> .....	99.8	+11.2	+10.1

<sup>1</sup> Federal Power Commission; <sup>2</sup> Illinois Department of Mines; <sup>3</sup> Illinois Department of Labor; <sup>4</sup> Federal Reserve Bank, 7th District; <sup>5</sup> U. S. Bureau of Labor Statistics; <sup>6</sup> F. W. Dodge Corporation; <sup>7</sup> Federal Reserve Board; <sup>8</sup> Illinois Crop Reports; <sup>9</sup> Life Insurance Agency Management Association; <sup>10</sup> Illinois Geological Survey.  
<sup>a</sup> Seasonally adjusted. n.a. Not available.

## UNITED STATES MONTHLY INDEXES

Item	March 1954	Percentage Change from	
		Feb. 1954	March 1953
Personal income <sup>1</sup> .....	282.8 <sup>a</sup>	-0.1	-0.3
Manufacturing <sup>1</sup> .....			
Sales.....	28.8 <sup>a</sup>	+1.7	-7.0
Inventories.....	45.7 <sup>a, b</sup>	-0.9	+2.0
New construction activity <sup>1</sup> .....			
Private residential.....	10.2	+11.5	-1.0
Private nonresidential.....	15.5	+11.4	-0.3
Total public.....	9.3	+13.8	-3.1
Foreign trade <sup>1</sup> .....			
Merchandise exports.....	14.2 <sup>c</sup>	+8.2	-1.6
Merchandise imports.....	9.7 <sup>c</sup>	-3.0	-5.5
Excess of exports.....	4.5 <sup>c</sup>	+44.4	+8.2
Consumer credit outstanding <sup>2</sup> .....			
Total credit.....	27.2 <sup>b</sup>	-1.2	+4.6
Installment credit.....	20.9 <sup>b</sup>	-1.2	+7.8
Business loans <sup>2</sup> .....	22.8 <sup>b</sup>	+1.7	-2.2
Cash farm income <sup>3</sup> .....	24.0	+3.7	-4.5
Indexes (1947-49 = 100)			
Industrial production <sup>2</sup> .....			
Combined index.....	123 <sup>a</sup>	-0.8	-8.9
Durable manufactures.....	135 <sup>a</sup>	-2.9	-12.9
Nondurable manufactures.....	113 <sup>a</sup>	0.0	-5.0
Minerals.....	112 <sup>a</sup>	0.0	-2.6
Manufacturing employment <sup>4</sup> .....			
Production workers.....	102 <sup>a</sup>	-1.1	-9.3
Factory worker earnings <sup>4</sup> .....			
Average hours worked.....	99	-0.5	-4.1
Average hourly earnings.....	135	0.0	+2.3
Average weekly earnings.....	133	-0.5	-1.9
Construction contracts awarded <sup>5</sup> .....	200	+25.1	+13.4
Department store sales <sup>2</sup> .....	105 <sup>a</sup>	-3.7	-8.7
Consumers' price index <sup>4</sup> .....	115	-0.2	+1.1
Wholesale prices <sup>4</sup> .....			
All commodities.....	111	+0.1	+0.5
Farm products.....	99	+0.8	-1.3
Foods.....	105	+0.5	+1.2
Other.....	114	-0.1	+0.8
Farm prices <sup>3</sup> .....			
Received by farmers.....	95	-0.8	-3.0
Paid by farmers.....	114	+0.4	+0.4
Parity ratio.....	90 <sup>d</sup>	-1.1	-4.3

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for February, 1954; comparisons relate to January, 1954, and February, 1953.  
<sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1954					1953
	April 24	April 17	April 10	April 3	March 27	April 25
Production:						
Bituminous coal (daily avg.).....	1,123	1,108	1,110	1,113	1,112	1,504
Electric power by utilities.....	8,257	8,345	8,396	8,463	8,491	8,016
Motor vehicles (Wards).....	147.2	139.6	141.5	138.6	139.2	182.6
Petroleum (daily avg.).....	6,482	6,484	6,461	6,378	6,344	6,184
Steel.....	101.8	101.0	101.0	102.6	101.1	141.7
Freight carloadings.....	626	613	607	599	601	780
Department store sales.....	102	118	113	103	100	104
Commodity prices, wholesale:						
All commodities.....	111.3	111.0	110.9	110.9	110.8	109.4
Other than farm products and foods.....	114.6	114.5	114.5	114.4	114.4	113.2
22 commodities.....	93.1	92.6	91.4	91.7	90.3	87.8
Finance:						
Business loans.....	22,348	22,558	22,714	22,763	22,821	23,156
Failures, industrial and commercial.....	229	198	246	267	277	159

Source: Survey of Current Business, Weekly Supplements.



# RECENT ECONOMIC CHANGES

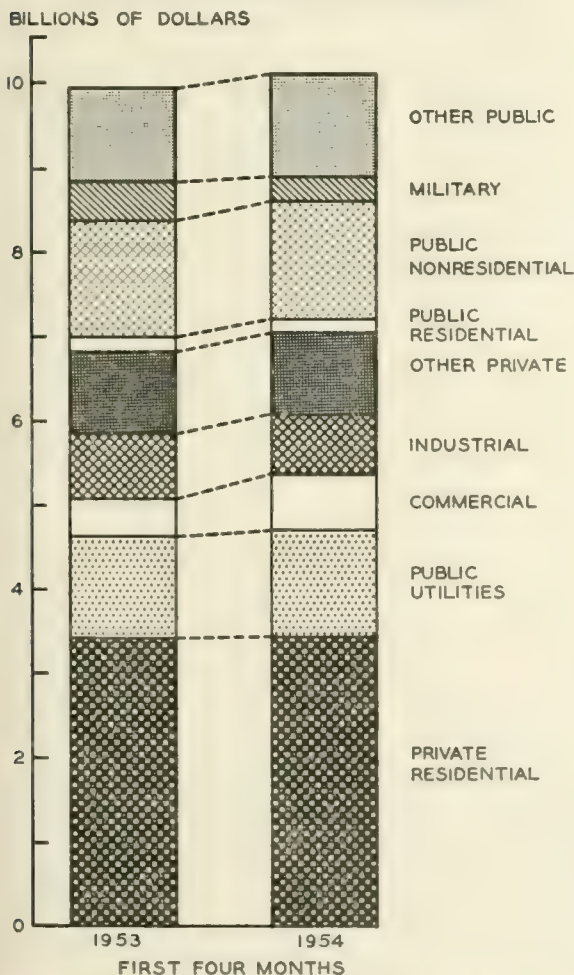
## Construction Continues Strong

Construction activity continues to be a major stabilizer for the economy. During April, outlays rose 9 percent to \$2.8 billion. The usual spring increase in homebuilding coupled with a greater-than-seasonal advance in highway construction accounted for most of the April rise. Although the increase in total outlays over April of last year was small, dollar volume was nevertheless at a record for the month.

Trends of various categories of total construction have been divergent and largely offsetting so far this year. As shown by the accompanying chart, private residential construction has been maintained at about the year-ago level. Expenditures for public utility structures and for commercial buildings, on the other hand, were up considerably this year and more than offset a 7 percent decline in expenditures for industrial construction. Outlays for commercial building failed to rise seasonally last month, but were up 40 percent between the first four months of 1953 and the same period of this year. Contract awards for this type of construction have been rising, however, indicating some increase in May.

In the public sector, increased expenditures for highways and educational building all but compensated for lower military and public housing outlays in the first four months of 1954.

CONSTRUCTION EXPENDITURES



Sources: U. S. Departments of Commerce and Labor

## Unemployment Drops

Unemployment declined in April by 260,000 workers. This was the first downward movement since last October. Despite the decline, unemployment was higher for the month than for any other postwar year except 1950.

During the month employment rose by a half million workers to 60.6 million. The increase, largely attributable to the seasonal pickup in outdoor work, was evenly shared by farm and nonfarm workers. Census data in thousands of workers are as follows:

	April 1954	March 1954	April 1953
Civilian labor force.....	64,063	63,825	62,810
Employment.....	60,598	60,100	61,228
Agricultural.....	6,098	5,875	6,070
Nonagricultural.....	54,500	54,225	55,158
Unemployment.....	3,465	3,725	1,582

## Machine Tools Face Cutback

Machine tool builders are still doing a substantial volume of business each month, but their backlogs of unfilled orders are dwindling. The value of machine tool shipments totaled about \$95 million in March, somewhat above shipments in January and February. New orders also picked up during March, but continued well below the current rate of shipments. As a result backlogs were down to 4.6 months' work at the March rate of production, compared with 5.1 months in February and 5.6 months in January.

The machine tool industry is one often characterized as feast or famine. Tool builders were in a feast phase after the outbreak of hostilities in Korea. Between the beginning of 1950 and the beginning of 1951 new orders more than quadrupled. Shipments also rose sharply after Korea but the industry could not expand nearly as rapidly as demand, so that unfilled orders rose from less than 4 months' work in January of 1950 to over 15 months in January of 1951. Backlogs continued to expand into 1951 even though new orders declined steadily after the first quarter; by September, 1951, unfilled orders were up to almost two years' work. Thereafter, however, backlogs declined. Even with production down 10 percent in the past 12 months, backlogs fell from 8.5 months in March of 1953 to 4.6 months this year.

## Foreign Aid at Postwar Peak

United States net grants and credits to foreign nations totaled a postwar record of \$6.4 billion in 1953. This was up more than a fourth from 1952. Military assistance increased by \$1.7 billion, whereas economic and technical aid declined by \$300 million. During the year transfers under the various foreign aid programs declined from an annual rate of \$7.4 billion in the first half to \$5.4 billion in the second. The high rate in the first half reflects disbursements of funds appropriated in earlier years that had not been utilized. Disbursements in the second half were about in line with the fiscal 1954 appropriation.

Assistance to Western Europe and its dependent areas was up almost 20 percent to \$4.5 billion last year. All of the increase was in military aid; economic and technical aid was reduced from 1953 by almost a third to less than a billion dollars.

Net grants and credits to the Far East, which accounted for a fifth of total assistance, were up 45 percent from 1952. Military aid was almost doubled and economic aid, in contrast to other areas except the American republics, was also higher.

## Corporate Working Capital Rises

Net working capital of corporations increased in 1953, but at a much slower rate than in recent years. At the end of the year corporate net working capital amounted to \$92.7 billion. This was \$2.8 billion above the end of 1952, compared with advances of \$3.9 billion, \$4.4 billion, and \$9.3 billion in the three preceding years.

Working capital reached a peak in the third quarter and declined slightly toward year-end, reflecting mainly liquidation of inventories and receivables. Despite the fourth quarter decline, corporate inventories at the end of the year were \$1.6 billion higher than at the end of 1952 and accounted for about half of the increase in current assets during the year. Most of the remainder of the \$3.3 billion increase in current assets was in holdings of United States government securities, reflecting accumulations for tax reserves. Corporations maintained their liquidity positions, as assets in the form of cash and government securities amounted to 54 percent of liabilities. This was substantially below the postwar peak of 71 percent in 1949, but still above prewar levels.

## Textile Production Down

Conditions in the textile industry continued depressed during the early part of this year. Output of textile mills in the first two months of 1954 was down 13 percent from the same 1953 months, according to the Federal Reserve Board. Rayon and acetate synthetic fiber shipments in the first quarter were 15 percent below the same 1953 quarter. Wool consumption in the closing quarter of last year was almost a fourth below the first quarter, though the industry indicates that a moderate rise occurred in the first quarter of this year. Cotton fiber and fabric producers are faring somewhat better, but cotton consumption was still lower in the

first quarter of this year than a year ago despite increases in the past two quarters.

As shown by the accompanying chart, demand for the principal textiles has been predominantly downward for the past few years, reflecting a number of factors. Chief among these have been competition from abroad, shifts in fashions to lighter, less fiber using fabrics, and development of new synthetic fibers which have partly replaced demand for the older fibers. In addition, consumers have been devoting a declining share of their disposable income to apparel purchases in recent years.

## Repeating 1929?

(Continued from page 2)

to the professionals by buying shares in investment trusts. These and other investment institutions have thus come to dominate the market. They typically operate on the principle, "Nothing but the best!" That is why the leading stocks have been so strong, leaving the rest of the market far behind.

These institutional investors operate with an eye to real values, but their views run strongly to fashions. Nowhere does "news" get around so quickly as in the financial community. Once a person accepts the dominant theme, he readily finds assurances that he is on the "right" track. And so he is—until the fashion changes. The favorite groups in the recent rise were the aircraft, electrical equipment, rubber, and paper industries. Logic is apparent here in the fact that volume is maintained while excess profits taxes are eliminated. But even the best logic may be carried too far when it becomes the fashion of the day.

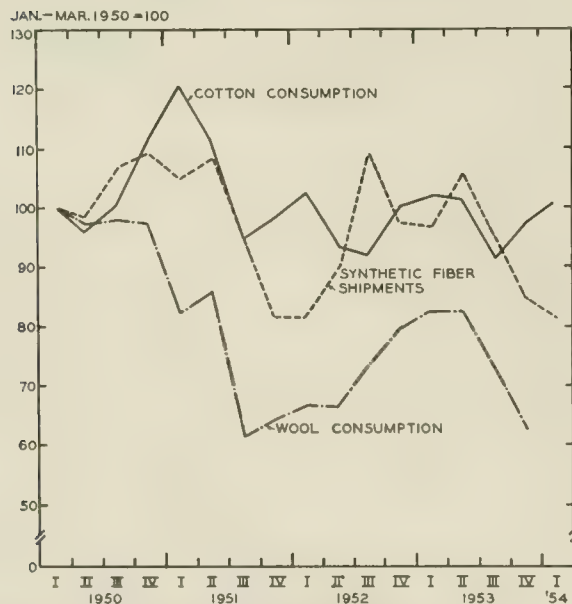
When concentration on favorites creates undue disparities in relative prices, it creates opportunities in the neglected groups. Possibly the beginnings of a shift in market behavior may be observed in more recent strength in the building supply, office equipment, oil, and steel groups and in some secondary issues in all the favored groups. Here, renewed confidence in business prospects has apparently begun to take hold.

In time, it may even be found that prospects for some of the other depressed groups have been overdiscounted. Once the consumer goods industries have adjusted to the more competitive conditions recently experienced, it is likely that reasonable profits will be realized in those industries also. The peak in concentration on the "best quality" issues may not yet be passed, but the dynamic movers of the future may be found among issues now being ignored.

Even judging by the prices of the high-quality indexes, however, the market has far to go before the excesses of 1929 would again be approached. The economy has grown so greatly, the value of the dollar has depreciated so much, that the same prices today do not mean the same thing they did then. It is only a form of "money illusion" to say that stock prices are almost as high as at the earlier breaking point.

Nothing that has happened, or seems likely to happen in the next year or so, provides reason to think that the extremes of 1929 will be repeated. The market condition is sound enough so that only a definite prospect of further business declines could provide reason to turn it downward. Currently, the economy appears to be pulling out of the slump. Although the market will no doubt have temporary setbacks, the chances are that the general trend will continue upward through the year.

TEXTILE CONSUMPTION



Source: U. S. Department of Commerce.

VLB



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Tiny Capacitor

A tubular-shaped capacitor about as large as a kernel of corn has been developed by General Electric Company's capacitor department in Hudson Falls, New York. Designed as a companion to the transistor (a small electronic device that can be utilized in place of some types of vacuum tubes), the new product can be applied in many instances to miniature radios and tiny hearing aids as well as to other equipment employing transistors. It can be used in hearing aids to eliminate interference and to provide better tone by filtering the electric current. It is also expected to be employed by the armed forces for lightweight and small electronic equipment. Made chiefly of silver and tantalum metals, the micro-miniature device is believed by the company to be as important for the development of miniature items as was the transistor. The new capacitor measures 1/8 inch in diameter and 5/16 inch in length, approximately one-fourth the size of the smallest capacitor previously built by General Electric to do the same job.

### Purchasing Efficiency

A quick, practical method of analyzing small business purchasing operations to identify profit leaks is presented in the Small Business Administration's Management Aid Number 45, *Judging Your Purchasing Efficiency* by Alfred W. Sutter. The discussion centers around the three major aspects of purchasing: the range of activities, i.e., the jobs, responsibilities, and skills involved; the teamwork quality of purchasing activities; and the "current health" of purchasing activities, i.e., how a particular operation measures up to what it should and could be.

A table to help the small business owner compare certain key purchasing factors is explained and illustrated and a chart showing how to evaluate major purchasing functions is also included. The pamphlet is available free from the Small Business Administration, Washington 25, D. C.

### Re-usable Tin Cans

An aluminum lid that snaps on and off ordinary metal food cans (after the top of the can has been removed), converting them into food storage containers for refrigerators or freezers, is being marketed by Ellwood F. Whitchurch, Fayetteville, Arkansas. Called "Frostite," the new product is re-usable and permits easy stacking of cans. The lids will retail at 29 cents for a package of five in grocery and hardware stores.

### New Metal-Working Process

A new metal-working process said to perform existing machining jobs more efficiently has been developed by lathe-making Lodge & Shipley Company, Cincinnati, Ohio. Called "Floturn," the new method squeezes and stretches cold steel under controlled pressure against a revolving metal part to make conical or cylindrical shapes such as artillery shells. The method can produce such shapes faster, easier, and at lower cost than any of the conventional ways of shaping cold metal parts.

The new process is almost fully automatic, requiring no special skills of the operator. It has been widely tested

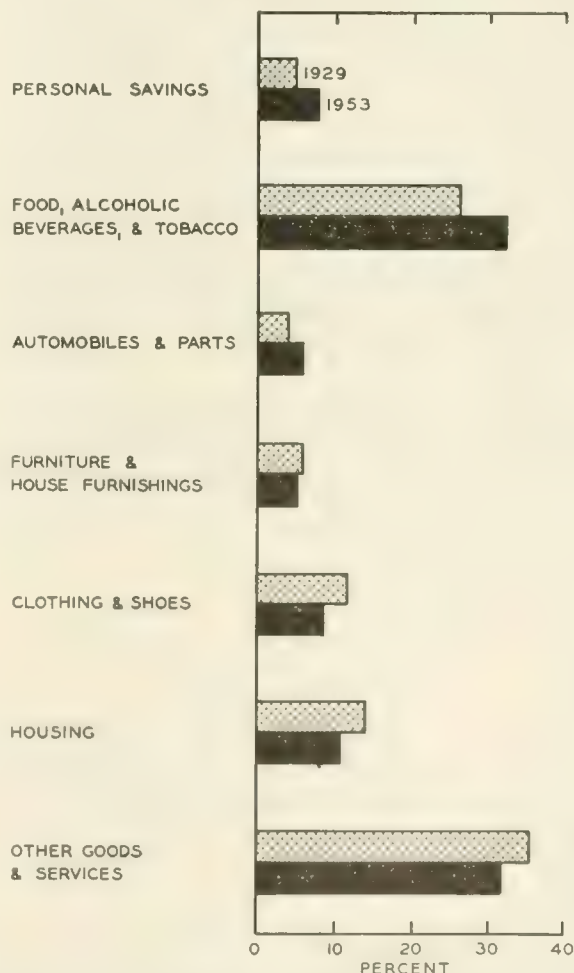
and used in jet aircraft engine production. Machines for the Floturn method sell for about \$38,000 but extra equipment brings the price of each model to approximately \$55,000 according to the company.

### Shifts in Consumer Expenditures

Pronounced changes have occurred in the consumption pattern of various goods and services during the past 25 years, according to the April *Survey of Current Business*. In 1953 consumers spent almost a third of their disposable personal income for food, alcoholic beverages, and tobacco—a considerably higher portion than was used for that purpose in 1929 (see chart). Also registering a notable increase was the percentage allotted to automobiles and parts purchases. The share of income spent for clothing and shoes declined in 1953 and the portion going for housing was also lower than in 1929.

Consumers spent 31.6 cents of each income dollar for services in 1953 and 61.1 cents for durable and non-durable goods; they saved 7.3 cents. In 1929 services took 38.4 cents, whereas durable and nondurable goods claimed 57.1 cents and savings amounted to only 4.5 cents.

CONSUMPTION EXPENDITURES AS PERCENT OF DISPOSABLE INCOME



Source: U. S. Department of Commerce.

# INVESTMENT AND THE NEED FOR CAPACITY

DONALD C. STREEVER, JR., Research Assistant

Private investment is generally recognized as playing a major role in the business cycle. Historically, private investment in capital goods and inventories has accounted for less than 15 percent of total output. However, cumulative movements in income and employment are often initiated or accentuated by shifts of activity in this sector. In the absence of offsetting factors, increased employment and income generated by the capital goods industries are translated into consumption expenditures which in turn stimulate additional production, employment, and income, and ultimately still more investment. When investment declines, these forces operate in reverse and a downward movement in business activity results.

## Investment Builds Capacity

This article summarizes the results of a study of the effects of changing levels of production and capacity on the volume of industrial investment expenditures, and appraises the near-term outlook for private investment in capital facilities within this analytical framework.<sup>1</sup>

A first step in the study was estimation of the annual volume of installed capacity. Systematic estimates of capacity do not exist for broad industry groups, and there is no basis for combining the various series on the few industries for which estimates are available. An over-all measure of industrial capacity therefore had to be constructed.

Underlying the estimates made of capacity is an assumption that changes in capacity are proportional to net plant and equipment expenditures, that is, to annual changes in the capital stock. Net expenditures were determined by deducting depreciation charges expressed in 1939 dollars from gross expenditures in 1939 dollars. A difficult statistical problem arises in obtaining suitable price indexes to deflate these series. The deflation of depreciation charges in particular has many complications, some of which may be resolved only by rough estimates. The deflator constructed takes account of the average

age of facilities being depreciated and is based on capital goods prices prevailing in the year the facilities being depreciated were purchased.

The annual net expenditures data were translated into index terms by dividing net expenditures by a constant; the resulting capacity changes were accumulated. The constant controls the steepness of the capacity index. Although determination of the constant was somewhat arbitrary, the principal consideration was that the percent of industrial capacity operated in the two post-war periods was roughly the same. This is consistent with data available for specific manufacturing industries, such as the steel industry; it is also consistent with other studies of capacity made in the interwar period, such as the Brookings Institution's study, *America's Capacity to Produce*.

Chart 1 compares the index of capacity in existence at the beginning of each year with the Federal Reserve Board's index of industrial production. In expansionary periods, such as the twenties and post-World War II years, capacity tends to parallel the trend in production. When production is reduced, capacity levels off. In extremely depressed periods, such as the early thirties, capacity may actually decline. An annual decline much greater than 2 or 3 percent, however, is unlikely, since even in the most depressed periods production and capacity of industries producing basic necessities are maintained, and expansion of capacity in new industries continues. These elements of stability offset postponed replacement expenditures and curtailed expansionary expenditures by more seriously depressed industries, and serve to sustain aggregate capacity.

During World War II production exceeded private capacity, reflecting omission of government-built capacity from the estimates and prevalence of multiple-shift operations in many plants which in peacetime normally operate one shift. Capacity of private firms declined during the war, because restrictions on building materials and metals held new capital outlays to a low level while depreciation continued to take its toll of existing capacity.

## Investment Related to Output and Capacity

Under peacetime conditions, investment expenditures are closely related to the level of industrial production and the amount of capacity in existence. One measure of this relationship is shown in Chart 2. The upper panel of the chart indicates that investment outlays and industrial production tend to rise together. However, at the higher levels of production the observations deviate substantially from the line of average relationship. This is explained by the existence of a greater amount of capacity in later years. As shown by the lower panel of the chart, deviations are almost entirely accounted for by correlating them with capacity in existence each year.<sup>2</sup>

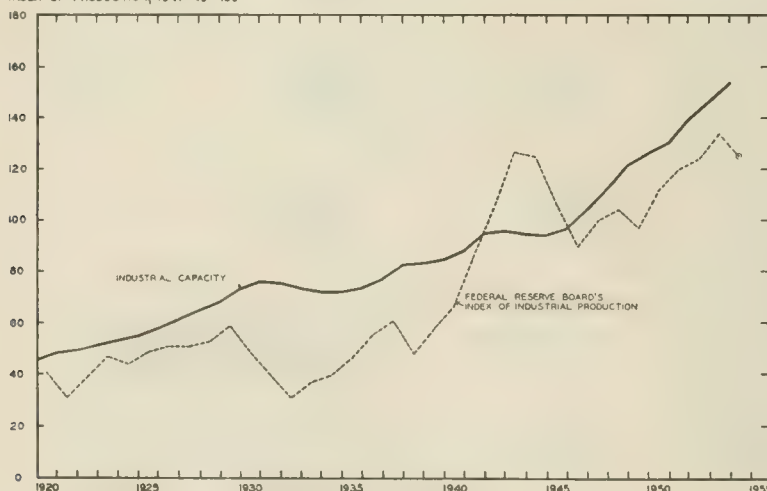
<sup>2</sup> The computed relationship is as follows:  
 $I = 760 + 73.3 P - 28.8 C$

*I* represents industrial investment expenditures in millions of 1939 dollars.

*P* represents the production level relevant to a determination of percent of capacity operated. This

CHART 1. INDUSTRIAL PRODUCTION AND CAPACITY

INDEX OF PRODUCTION, 1947-49=100





The negative slope of the line in the lower panel shows that the tendency for expenditures to respond fully to changing levels of production is dampened by the volume of installed capacity. If industrial production rises, the increase in investment will be considerably less when a substantial volume of previously unutilized capacity can be put to use than when capacity is low relative to production and many firms require additional facilities to meet increased demand. Thus the greater the amount of existing capacity, the smaller will be the investment outlays needed at any given level of production.

As shown by Chart 3, the relationship approximates actual investment with a high degree of accuracy. Excluding the war years, the discrepancy between actual and calculated expenditures averaged about 7 percent, and in most peacetime years was substantially smaller than a half billion dollars. The relationship was drastically disturbed during the war when the government controlled expansion programs and industrial plants operated multiple shifts. Actual expenditures also exceeded calculated expenditures substantially in 1946 and 1947, as the backlog of demand for private capacity built up during the war was superimposed on the "normal" amount of expenditures induced by high production and inadequate capacity. Thereafter the relationship approximates the postwar pattern. The inverse movement in 1952 is mainly a reflection of the steel strike of that year, indicating that investment schedules are not adjusted materially to production cuts resulting from work stoppages in contrast to fluctuations in demand.

## The Outlook for Capital Expenditures

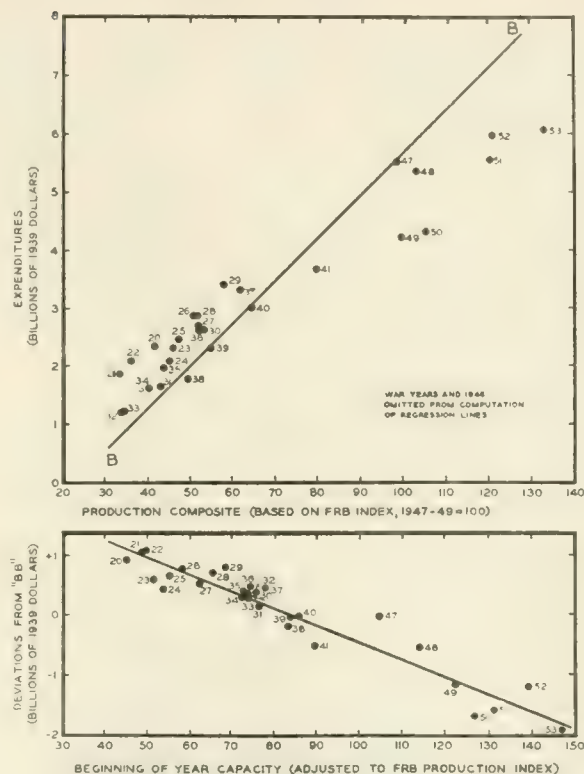
During 1953 capacity increased about 5 percent. With production down in the past six months, much existing capacity is not being utilized. As a result, industrial investment expenditures in 1954 are expected to be about 7 percent below the 1953 level. This is based on an estimated FRB index of 124, or an average for the year about the same as the first quarter level. Production in April was somewhat lower, but the situation seems to have stabilized and a very moderate recovery would bring the year as a whole to the first quarter level.

Although investment programs are adjusted fairly rapidly to changing levels of production, actual expenditures lag production movements by the time needed for the construction of plants and installation of equipment. Investment expenditures planned before production declined last year have had some stabilizing influence early this year. Preliminary estimates by the Department of Commerce indicate first quarter outlays were off about 4 percent from 1953, but the full impact of the past six months' decline in production on in-

production variable is a seven-quarter weighted average of the FRB index which includes three quarters of the previous year and the four quarters of the current year, all of which are assumed to make some contribution to the current year's investment. It is designed to account for the lag that necessarily exists between the time investment decisions are made and the capital facilities ordered can be made ready for operation.

C represents the index of capacity in existence at the beginning of the year. This may be regarded as an average of capacity for the seven-quarter period covered in the production composite, since changes in capacity are relatively smooth even when production is changing rapidly.

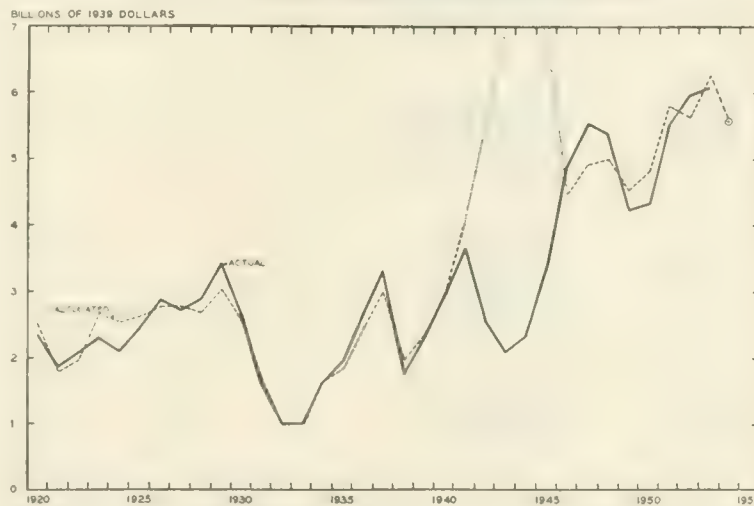
CHART 2. RELATION OF INDUSTRIAL INVESTMENT EXPENDITURES TO PRODUCTION AND CAPACITY



vestment expenditures will not be felt until the second and third quarters.

Lower expenditures this year will slow the rate of growth in capacity, but capacity will nevertheless increase throughout the year. This means a moderate recovery in output will produce no increase in investment outlays in 1955. If production recovers most of the decline by year-end, outlays in 1955 may be higher than this year. With such a rise in production, expenditures would be a buoyant element next year but will still not measure up to 1953's level.

CHART 3. ACTUAL AND CALCULATED INDUSTRIAL INVESTMENT EXPENDITURES



Source: Actual expenditures derived from Federal Reserve Board and Department of Commerce data.

# LOCAL ILLINOIS DEVELOPMENTS

Business activity picked up in Illinois during March, partly as a result of seasonal developments. Coal production, construction contracts awarded, and steel production were higher than in February. Other indicators were not only up seasonally but also registered improvement over March of last year. These included bank debits, life insurance sales, petroleum production, business loans, and electric power production.

Farm prices received in March were off from February but registered small gains over a year ago. For the third consecutive month, the Chicago consumer price index was unchanged at 116.7 (1947-49 = 100); at this level, it was 2.5 percent above last March.

## Manufacturing Activity in Illinois

Illinois ranked fourth among the states in terms of dollar value created in the manufacturing process in 1952. The total value added to products in Illinois rose to \$9.3 billion, up 5.4 percent from the preceding year and almost 40 percent from 1947.

With the exception of the leather and leather products industry, all groups reported an increase from 1947

to 1952 in the value added by manufacture (derived by subtracting the cost of materials, supplies, and so on from the total value of products shipped). Increases of 60 percent or more in the value added to products manufactured in the State were achieved from 1947 to 1952 in two industries—instruments and related products, and machinery (except electrical). The latter retained its position as the leading single industry in the State, whether measured by the total number of employees or by the value added to products (see chart). Other manufacturing industries in order of importance in Illinois include food and kindred products, electrical machinery, fabricated metal products, the primary metal industries, the printing and publishing industries, and chemicals and allied products. These seven groups together accounted for about three-fourths of all manufacturing activity in the State in 1952.

## Civilian Government Employees

A total of 346,770 persons, or almost 4 percent of the population, were employed as public workers in Illinois during 1953. About two-thirds were state and local workers and the remainder were Federal government civilian employees.

Total civilian government workers in the nation as a whole, approximately 7 million persons in 1953, earned \$23.3 billion. The largest share of the total (\$10.2 billion) was paid by local governments, but the Federal payroll amounted to \$9.8 billion, and employees of state governments received \$3.3 billion.

## Quarterly Construction Totals

Construction contracts awarded during the first quarter of 1954 in Illinois reached \$266.0 million, or 26 percent more than the same period a year ago. The gain was double the average reported by F. W. Dodge Corporation for the 37 states east of the Rocky Mountains. Substantial increases in the valuation of contracts for both residential and nonresidential building were responsible for the boost.

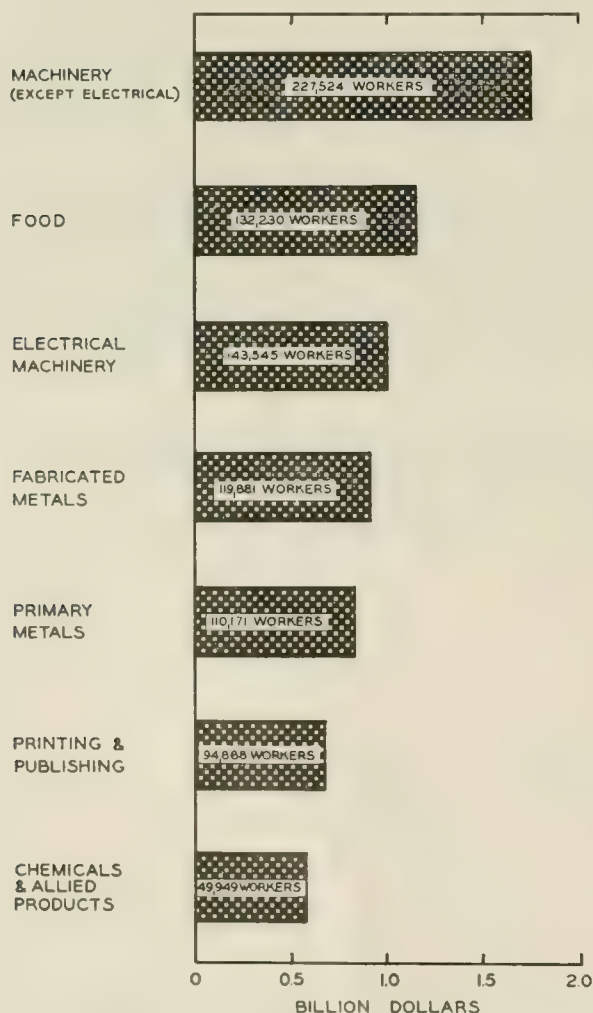
March awards in Illinois rose 18 percent from February, to \$103.6 million, largely as the result of seasonal trends. However, total contracts awarded were slightly lower than in March, 1953, because of a decline in awards for public works and utilities.

## Prospective Plantings

Illinois farmers have indicated that they are planning to devote the same total acreage to crops in 1954 as they did last year. But shifts in the distribution of acreage are expected to be greater than usual this year, owing primarily to the government's allotment program which calls for sharp reductions of corn and wheat in the State. To utilize the restricted land, farmers intend to more than double acreage planted in barley and rye and they also indicate a fairly substantial increase for hay and other small grains.

On April 1, the prospective wheat crop was 40 million bushels, which is much smaller than last year's crop of 57 million but substantially larger than the 10-year average (30 million bushels). The present acreage suffered little or no winter damage and is starting out this spring with generally better than average stands.

VALUE ADDED BY MANUFACTURING, 1952  
LEADING INDUSTRIES



Source: Bureau of the Census.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

March, 1954

		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b>		<b>\$21,182<sup>a</sup></b>	<b>967,762<sup>a</sup></b>	<b>\$480,548<sup>a</sup></b>		<b>\$15,012<sup>a</sup></b>	<b>\$14,908<sup>a</sup></b>
Percentage Change from	{ Feb., 1954	-19.6	+1.0	-6.0	+10	+30.7	+13.8
	{ Mar., 1953	-1.9	-2.3	-5.6	-9	+5.1	+11.2
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b>		<b>\$14,872</b>	<b>756,254</b>	<b>\$358,201</b>		<b>\$13,854</b>	<b>\$12,996</b>
Percentage Change from	{ Feb., 1954	+25.4	+1.2	-6.8	+10	+31.9	+14.9
	{ Mar., 1953	+1.1	-3.2	-4.5	-9	+5.2	+11.7
<b>Aurora</b>		<b>\$ 294</b>	<b>n.a.</b>	<b>\$ 6,671</b>		<b>\$ 50</b>	<b>\$ 120</b>
Percentage Change from	{ Feb., 1954	+52.3		-1.3	+20	+21.0	+22.3
	{ Mar., 1953	-38.0		-4.1	-19	+1.6	+20.0
<b>Elgin</b>		<b>\$ 314</b>	<b>n.a.</b>	<b>\$ 4,693</b>		<b>\$ 31</b>	<b>\$ 100</b>
Percentage Change from	{ Feb., 1954	+72.5		+1.0	+19	+19.8	+21.5
	{ Mar., 1953	-19.7		-4.7	-6	+11.0	+3.2
<b>Joliet</b>		<b>\$ 452</b>	<b>n.a.</b>	<b>\$10,184</b>		<b>\$ 60</b>	<b>\$ 102</b>
Percentage Change from	{ Feb., 1954	+48.7		-17.6	+13	+12.2	+41.8
	{ Mar., 1953	+17.4		-4.5	-22	-3.0	+35.9
<b>Kankakee</b>		<b>\$ 266</b>	<b>n.a.</b>	<b>\$ 4,685</b>		<b>n.a.</b>	<b>\$ 35</b>
Percentage Change from	{ Feb., 1954	+23.1		+1.2	n.a.		+4.9
	{ Mar., 1953	+144.0		-8.8			+9.1
<b>Rock Island-Moline</b>		<b>\$ 662</b>	<b>20,002</b>	<b>\$ 8,055</b>		<b>\$ 80<sup>b</sup></b>	<b>\$ 161</b>
Percentage Change from	{ Feb., 1954	-25.1	+1.7	-6.6	n.a.	+13.4	+5.4
	{ Mar., 1953	+48.4	+2.1	-18.3		-4.0	+8.0
<b>Rockford</b>		<b>\$ 857</b>	<b>30,590</b>	<b>\$14,209</b>		<b>\$ 151</b>	<b>\$ 252</b>
Percentage Change from	{ Feb., 1954	+74.5	-4.2	-4.0	+22 <sup>c</sup>	+22.2	+24.1
	{ Mar., 1953	+24.6	-6.2	-9.6	-18 <sup>c</sup>	+0.6	+15.5
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b>		<b>\$ 844</b>	<b>6,780</b>	<b>\$ 4,675</b>		<b>\$ 66</b>	<b>\$ 111</b>
Percentage Change from	{ Feb., 1954	-15.3	-4.9	-1.3	n.a.	+25.8	+13.8
	{ Mar., 1953	+520.6	+3.6	-7.0		+9.5	-20.9
<b>Champaign-Urbana</b>		<b>\$ 179</b>	<b>8,418</b>	<b>\$ 6,334</b>		<b>\$ 54</b>	<b>\$ 98</b>
Percentage Change from	{ Feb., 1954	+214.0	-7.2	-1.4	n.a.	+6.2	+8.8
	{ Mar., 1953	+80.8	+0.7	-10.9		+4.4	+4.9
<b>Danville</b>		<b>\$ 150</b>	<b>8,894</b>	<b>\$ 5,101</b>		<b>\$ 46</b>	<b>\$ 64</b>
Percentage Change from	{ Feb., 1954	+10.3	-5.9	-1.5	+14	+19.6	+21.4
	{ Mar., 1953	+87.5	+8.8	-2.7	-20	+14.1	+15.5
<b>Decatur</b>		<b>\$ 330</b>	<b>22,630</b>	<b>\$ 8,814</b>		<b>\$ 98</b>	<b>\$ 124</b>
Percentage Change from	{ Feb., 1954	-40.6	+1.4	+1.3	+17 <sup>c</sup>	+18.1	+16.5
	{ Mar., 1953	-11.3	+4.4	+0.3	-8 <sup>c</sup>	+5.4	+15.1
<b>Galesburg</b>		<b>\$ 164</b>	<b>6,928</b>	<b>\$ 3,608</b>		<b>n.a.</b>	<b>\$ 37</b>
Percentage Change from	{ Feb., 1954	+33.3	+2.9	+0.1	n.a.		+26.4
	{ Mar., 1953	+35.5	+8.9	-3.6			+12.8
<b>Peoria</b>		<b>\$ 679</b>	<b>43,628<sup>c</sup></b>	<b>\$14,083</b>		<b>\$ 195</b>	<b>\$ 236</b>
Percentage Change from	{ Feb., 1954	+64.8	+2.7	-5.9	+8 <sup>c</sup>	+13.5	+12.4
	{ Mar., 1953	-70.3	-3.0	-13.6	-17 <sup>c</sup>	-1.4	+5.7
<b>Quincy</b>		<b>\$ 258</b>	<b>7,033</b>	<b>\$ 3,968</b>		<b>\$ 38</b>	<b>\$ 76</b>
Percentage Change from	{ Feb., 1954	-40.6	-7.5	-4.9	+14	+13.9	+1.8
	{ Mar., 1953	+273.9	+2.9	-10.1	-8	+8.2	+8.2
<b>Springfield</b>		<b>\$ 288</b>	<b>27,092<sup>c</sup></b>	<b>\$11,269</b>		<b>\$ 105</b>	<b>\$ 249</b>
Percentage Change from	{ Feb., 1954	-96.9	+4.6	+1.3	n.a.	+20.9	+12.4
	{ Mar., 1953	-59.8	+6.0	-7.7		+7.1	+1.4
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b>		<b>\$ 418</b>	<b>11,988</b>	<b>\$ 7,863</b>		<b>\$ 144</b>	<b>\$ 69</b>
Percentage Change from	{ Feb., 1954	+46.2	-1.2	-2.2	n.a.	+23.8	+24.2
	{ Mar., 1953	+1.2	-3.0	-14.9		+4.1	+6.2
<b>Alton</b>		<b>n.a.</b>	<b>11,640</b>	<b>\$ 4,327</b>		<b>\$ 41</b>	<b>\$ 36</b>
Percentage Change from	{ Feb., 1954		+4.9	-0.0	n.a.	+26.2	+14.9
	{ Mar., 1953		+3.2	-5.9		+19.1	+13.8
<b>Belleville</b>		<b>\$ 155</b>	<b>5,885</b>	<b>\$ 3,806</b>		<b>n.a.</b>	<b>\$ 42</b>
Percentage Change from	{ Feb., 1954	+307.9	+0.0	+0.1	n.a.		+6.7
	{ Mar., 1953	+68.5	+12.4	-2.4			+7.2

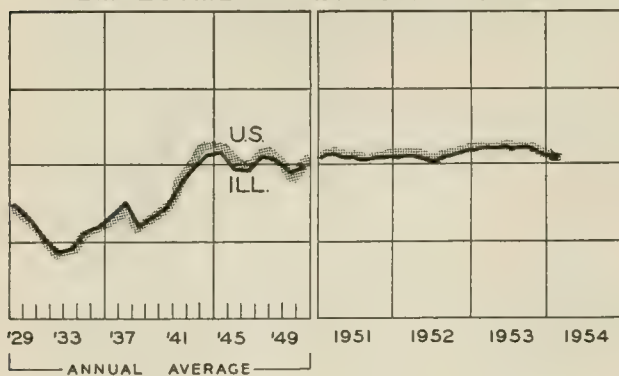
<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.

Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for February, 1954, the most recent available. Comparisons relate to January, 1954, and February, 1953. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

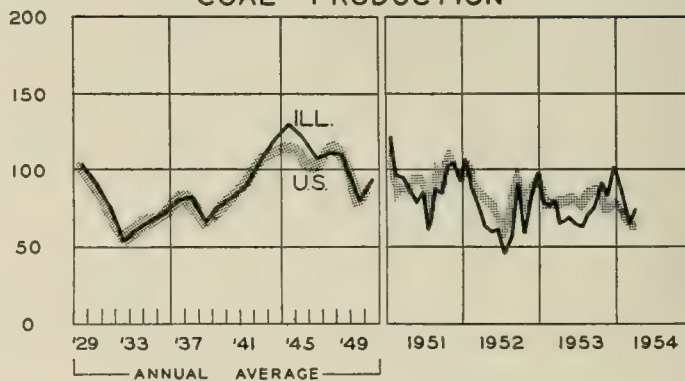
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

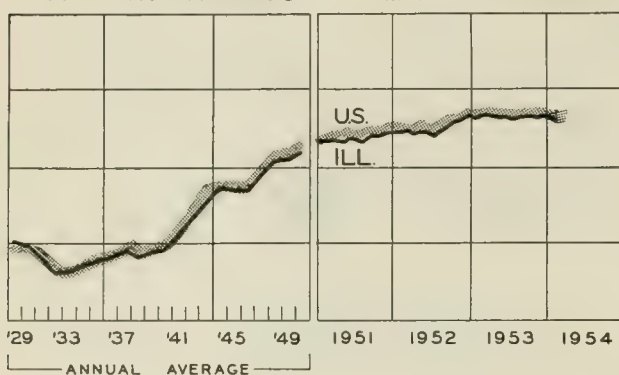
## EMPLOYMENT - MANUFACTURING



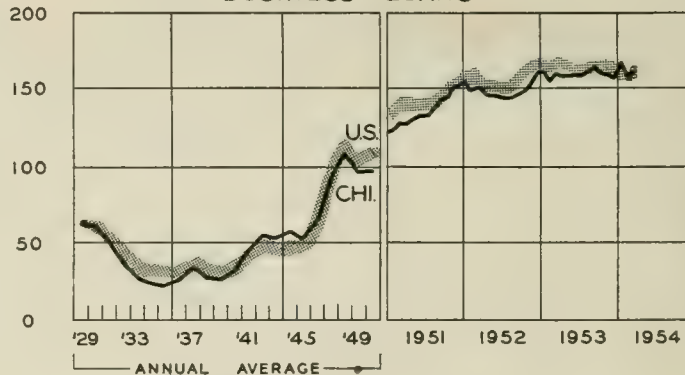
## COAL PRODUCTION



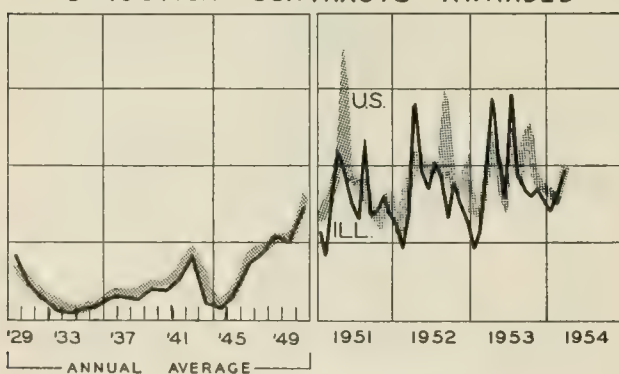
## AVG. WKLY. EARNINGS — MANUFACTURING



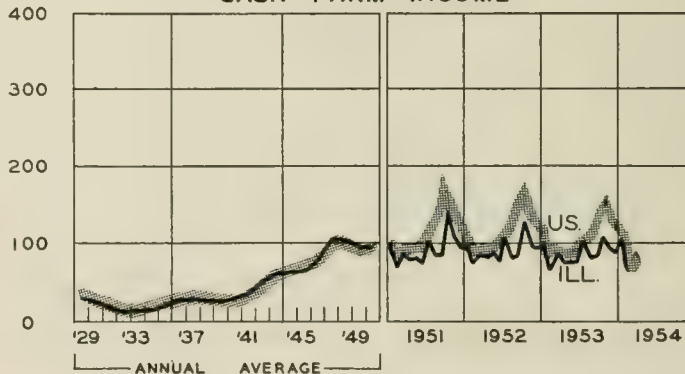
## BUSINESS LOANS



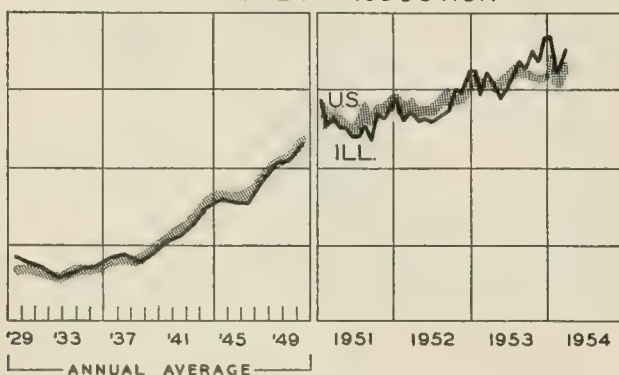
## CONSTRUCTION CONTRACTS AWARDED



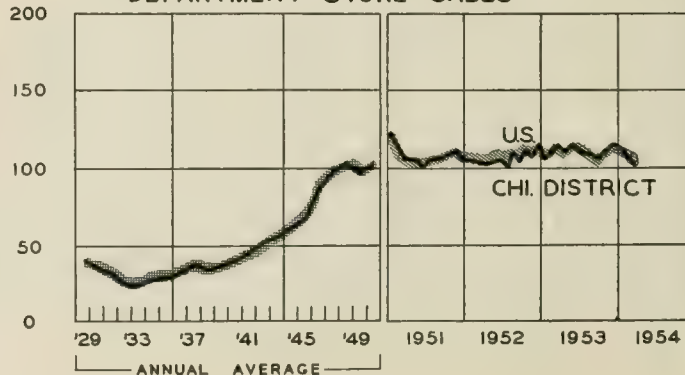
## CASH FARM INCOME



## ELECTRIC POWER PRODUCTION



## DEPARTMENT STORE SALES





Page 2

# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

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NUMBER 6

## HIGHLIGHTS OF BUSINESS IN MAY

Business activity appears to have leveled off in May. The long decline of the Federal Reserve index of industrial production was arrested in April and the index appears to have turned up slightly last month. Steel production rose somewhat during May, and by the end of the month the mills were operating at about 71 percent of capacity. Construction activity increased its margin over the corresponding month of last year to 4 percent.

Post-Easter department store sales have held up well this year, exceeding the March-April levels by 2 to 3 percent on a seasonally adjusted basis. A factor favoring the continuation of high levels of sales is the maintenance of personal income near peak levels. At an annual rate of \$282 billion in April, the nation's personal income had declined only 2 percent from the high attained last July.

### Unemployment Lower

There were about 160,000 fewer workers unemployed in early May than was the case a month earlier, but total unemployment of 3.3 million was still about 2 million higher than a year ago. Approximately one million of those seeking work had been unable to find a job for fifteen weeks or longer.

Along with the decline in unemployment, the number of people gainfully employed in May rose by half a million to 61.1 million. The increase was seasonal in character, as farm activities expanded sharply. Employment in nonfarm pursuits was somewhat lower, largely because of a decline in the number of jobs available in manufacturing industries.

### Capital Outlays Maintained

Only a slight decline in capital expenditures by American business exclusive of agriculture is in prospect during the third quarter of this year. If businessmen adhere to their intentions reported in May, they will be spending at an annual rate of \$26.8 billion for new plant and equipment during July, August, and September. This compares with \$26.9 billion estimated to have been spent in the second quarter and \$27.5 billion in the first quarter.

For the first nine months of this year, capital expenditures seem likely to drop about 5 percent below the amount spent in the first nine months of 1953. Moderate declines, averaging about 7 percent, appear in sight for manufacturing and transportation industries, with large

reductions occurring in primary metals, textile manufacturing, and on the railroads. The automotive industry is a notable exception to the declining trend, as scheduled outlays of the motor vehicle firms are exceeding last year's levels by 50 percent. Other sectors boosting outlays are paper, petroleum, electrical machinery, food and beverages, mining, and commercial operations.

### Inventories Down

Businessmen reduced their inventories more sharply during April than during any other month this year, and there were indications that further reductions may have been made during May. On a seasonally adjusted basis, the book value of stocks declined nearly \$500 million in April to \$79.6 billion, which is also below the seasonally adjusted figure for last April. Most of the decline during the month was accounted for by reduced holdings of durable goods on the part of manufacturers.

Business sales rose in April to \$47.7 billion on a seasonally adjusted basis. Despite this rise, however, sales were appreciably below the \$49.7 billion of goods sold in April of last year.

### Foreign Investments

American investors have been turning increasingly to foreign sources as outlets for their funds. United States investments abroad amounted to nearly \$40 billion by the end of 1953, more than double the value of American investments seven years earlier. The increase in investments abroad was about equally shared between private sources and United States government credits and loans.

More than half the total invested abroad at the end of 1953 — \$23.7 billion — consisted of private funds. Most of these private outlays represented long-term investments, mainly in plant and equipment, with short-term loans and credits accounting for only \$1.6 billion.

Foreign investments in this country have also risen, though not by as much as United States investments abroad. The total of such investments at the end of 1953 amounted to \$23.6 billion, about 50 percent higher than at the end of 1946. About \$9 billion of this sum consisted of long-term investments, the remainder being in short-term assets and United States government securities. Western European sources accounted for nearly half of these foreign investments.

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# ILLINOIS BUSINESS REVIEW

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## Trade in a World Divided

Conditions in Indo-China show how little the world situation has changed in the last few years. The West is again fighting a holding action. Part of the Vietnam area has been lost. Any attempt to recover it by throwing in additional forces is likely to call forth intervention from the Chinese that will again tie up valuable military resources in a jungle stalemate. Breaking the stalemate would probably involve widening the area of conflict; and the stakes hardly seem high enough to risk making this incident the occasion for setting loose the devastation of a new global war. The experts are guessing that partition of Indo-China is the most likely outcome.

The ramifications of the conflict in which this is an incident extend into every aspect of international political and economic relations. Everything done or proposed is judged in its bearing on this situation.

### Strengthening Western Europe

During the years in which this situation was developing, the processes of reconstruction and recovery have effected a general improvement of economic conditions throughout Western Europe. In most countries, production is substantially higher, and the increase reflects in large measure a rise in productive efficiency. Agriculture as well as industry has made substantial gains. Rising production and some limited measures aimed at restricting consumption have brought the postwar inflation to a halt. For over a year, prices have held as steady in Europe as in this country.

The result of these developments has been a definite improvement in the financial position of most European countries. Increased production improved their trading ability in two ways—by reducing the need for food and other imports and by increasing the supply of products available for export. Thus, they were able in 1953 to earn sufficient resources to meet their non-military import needs, even without the assistance of our foreign aid.

Deliveries on grants and credits by the United States government to foreign countries in 1953 totaled \$6.4 billion. Over two-thirds of this took the form of military supplies and services, representing our share of the burden of the combined rearmament program. With this assistance, they were able not only to cover their commitments but to build up gold and dollar reserves throughout 1953, continuing a movement that began in the spring of 1952. Practically all of the \$2.5 billion increase in

foreign gold and dollar holdings in 1953 went into the accounts of Western European countries and their dependencies.

The improved dollar position of several countries permitted them to relax restrictions against imports from the United States. It is too soon to attach any long-run significance to this development, but it may be regarded as a step in the direction of liberalizing trade policy. In recent months, talk of re-establishing free convertibility of currencies has gained confidence.

### Toward Freer Trade Policies

Lending support to such discussions is the fact that the business recession in this country has not resulted in a catastrophic decline in foreign trade. An inventory reversal like that of the past year would ordinarily have serious repercussions on both imports and prices. This time it has left the price level untouched, and imports are down only about as much as production. It may be misleading to generalize from this, because of the unusual concentration of the recession in the durable goods industries. Nevertheless, the fact that it has not meant economic disaster to us or to the countries that sell to us is taken as a highly encouraging development.

Furthermore, there seem to be signs of the development in our government of something resembling the qualities of leadership and responsibility so urgently needed in a country of our prestige and power. Continuity of policy has apparently prevailed through a major change in administrations, as indicated, for example, by President Eisenhower's program in the field of foreign economic policy. This program is designed to implement the recommendations of the Randall Commission, a non-partisan commission set up to study the problem last summer. In presenting it to Congress, the President said: "Conceived as a whole, this program consists of four major parts: aid—which we wish to curtail; investment—which we wish to encourage; convertibility—which we wish to facilitate; and trade—which we wish to expand."

The program admittedly represents a series of compromises, as any program agreed upon by so diverse a group as the Randall Commission inevitably would. While perhaps satisfying no one in its entirety, it has come under sharpest attack from the protectionists. Among its provisions for freeing trade are tariff reduction, power to set aside the "peril point" and "escape clause" provisions of existing legislation, partial abandonment of the "Buy American" amendment, and simplification of customs regulations and procedures. Elimination of high, inflexible farm price supports is also advocated for its contribution to this objective. The opposition to all these measures is indeed formidable.

It is significant that the new Administration, which explicitly pursues policies of economic conservatism, should undertake to put a liberalization program through in the face of such opposition. The underlying reason is no doubt to be found in the need for mutually advantageous relations with friendly countries. Departures from mutuality inevitably produce destructive reactions abroad. It is simply a recognition that protectionism and sound foreign policy are irreconcilable.

### Trade With the East

The trends in both economic activity and policy may be viewed with optimism, particularly by foreign countries

(Continued on page 9)



### DISTILLED AND CARBONATED BEVERAGES

Americans are guzzling more beverages today than ever before. Our great-grandfathers, for instance, consumed an average of only 1.6 bottles of pop each year, as compared with 174 bottles consumed by the average American in 1952. During the shorter period for which comparable figures are available for distilled beverages, per capita consumption doubled between 1934, the first year after the end of prohibition, and 1952. Consumption of beer, which is both alcoholic and carbonated, has also increased rapidly.

#### Industries Differ

The carbonated beverage industry is characterized by a large number of bottling firms spread over the country, roughly in proportion to population density and climatic characteristics. The distilled beverage industry is characterized by a relatively small number of large firms, the largest proportion of which are concentrated in a few states. Every state in the nation produces some bottled carbonated drinks, but almost half of the states produce no bottled distilled beverages. Beer production, unlike that of either distilled or carbonated beverages, is for the most part regional rather than local or national.

The basic reason for the structural difference between the two industries can be easily explained: transportation costs and the expense of collecting and returning bottles are important to the soft drink bottler, but are relatively unimportant to the distilled liquor producer. This, in turn, is because these costs constitute a much smaller proportion of the price of distilled beverages than of carbonated beverages. Beer is once again in an intermediate position; the cost of the bottle is more important than it is in the distilled liquor industry, but less important than in the case of carbonated beverages.

#### Illinois One of Leading Bottlers

Illinois plays an important part in the bottling of distilled liquor and in recent years has alternated between third and fourth place with Indiana. The leading four states in the industry—Kentucky, Pennsylvania, Illinois, and Indiana—account for well over 50 percent of our domestically distilled liquors.

In 1947, Illinois had 14 establishments employing over 4,000 workers engaged in liquor production as compared with 226 establishments employing more than 30,000 workers in the United States. These Illinois firms, like those in the rest of the country, ranged in size from those employing a handful of workers to large producing units such as the American Distilling Company of Pekin and Hiram Walker and Sons, Incorporated, of Peoria, which employ over 500 and over 2,700 workers respectively, and which have an annual capacity running into the millions of gallons. While distilling firms are found all over the State, the heaviest concentrations are around Chicago and Peoria.

Illinois is also a principal producer of carbonated beverages, ranking fifth after New York, Pennsylvania, Texas, and California. The State has a much larger number of establishments (264 in 1947) and a slightly higher number of workers than is the case in the distilled beverages industry.

Being located between Milwaukee and St. Louis, Illinois has never developed a major position in the brewing industry. Nevertheless, in 1947, Illinois had 39 establishments employing over 5,000 workers in the production of beer, ale, stout, and other malt liquors.

#### Big Changes Ahead

The biggest changes that have taken place in recent years in the beverages industries have been in the soft drink sector. Among these changes have been the introduction of vending machines and the development of new products such as quinine waters and low calorie drinks. These novelties have no doubt contributed to the growth of soft drink sales, but the most important development is one which may alter the entire face of the industry—the introduction of nonreturnable bottles and cans as soft drink containers.

As was mentioned previously, the cost of collecting bottles and returning them to the plants has been one of the most important factors in keeping the production of soft drinks a local business. There is some indication that the elimination of this necessity through the use of cans may also eliminate the local bottler. Already, Pepsi-Cola is said to be considering the elimination of the local franchise system and reorganization along lines similar to those of the brewing industry. These plans call for shipping directly from the canning plant to the retailer. Such plants are to be located in Chicago; Los Angeles; Englewood, New Jersey; Virginia; and two or three unspecified locations.

Advantages claimed for cans include easier handling and shipping due to their lighter weight and smaller bulk. In addition, breakage is unknown and the expense and inconvenience of handling and storing the empties is eliminated for the producer, the retailer, and the consumer.

Most important of the disadvantages is the higher wastage cost in using cans. The can, which costs roughly half as much as the bottle, can be used only once. In contrast, although the conventional bottle costs six cents, it is used many times. The problem in this case arises from the necessity for collection and cleaning. Canned beverages, wherever introduced, have been sold at slightly higher prices than the bottled beverage, thus offsetting the higher unit cost at least partially.

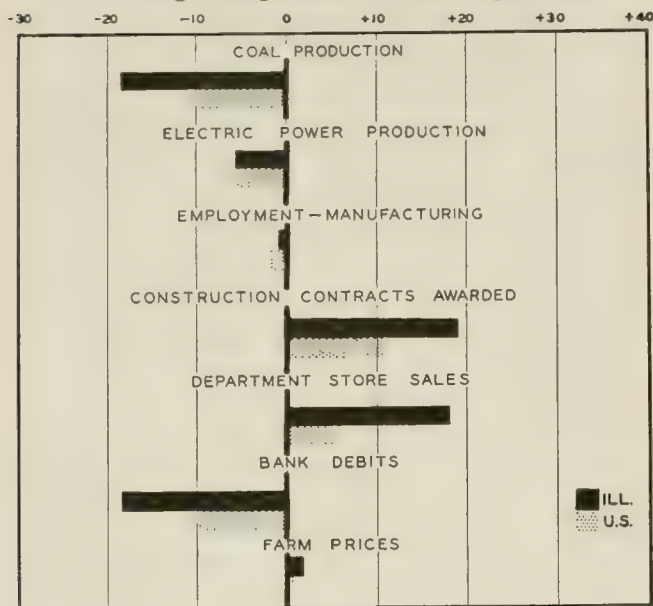
Although cans do offer many advantages, even their strongest advocates do not expect them to completely replace bottles. Consumer buying habits are strong and consumers are in the habit of buying their soft drinks in bottles. This factor alone will be enough to keep bottles in competition with cans.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes March, 1954, to April, 1954



## ILLINOIS BUSINESS INDEXES

Item	April 1954 (1947-49 = 100)	Percentage Change from	
		March 1954	April 1953
Electric power <sup>1</sup> .....	168.7	- 5.5	+ 9.0
Coal production <sup>2</sup> .....	60.6	-18.4	- 6.7
Employment—manufacturing <sup>3</sup> .....	102.8	- 0.9	- 8.7
Payrolls—manufacturing.....	n.a.		
Dept. store sales in Chicago <sup>4</sup> .....	104.0 <sup>a</sup>	+ 7.2	- 1.0
Consumer prices in Chicago <sup>5</sup> .....	116.5	- 0.2	+ 2.0
Construction contracts awarded <sup>6</sup> .....	232.5	+19.1	-18.8
Bank debits <sup>7</sup> .....	140.0	-18.5	- 3.1
Farm prices <sup>8</sup> .....	107.5	+ 1.5	+ 4.9
Life insurance sales (ordinary) <sup>9</sup> .....	172.0	-12.0	+ 5.8
Petroleum production <sup>10</sup> .....	97.9	- 1.9	+ 9.6

<sup>1</sup> Federal Power Commission; <sup>2</sup> Illinois Department of Mines;

<sup>3</sup> Illinois Department of Labor; <sup>4</sup> Federal Reserve Bank, 7th District;

<sup>5</sup> U. S. Bureau of Labor Statistics; <sup>6</sup> F. W. Dodge Corporation; <sup>7</sup> Federal Reserve Board; <sup>8</sup> Illinois Crop Reports; <sup>9</sup> Life Insurance Agency Management Association; <sup>10</sup> Illinois Geological Survey.

<sup>a</sup> Seasonally adjusted. n.a. Not available.

## UNITED STATES MONTHLY INDEXES

Item	April 1954	Percentage Change from	
		March 1954	April 1953
Personal income <sup>1</sup> .....	282.0 <sup>a</sup>	- 0.3	- 0.2
Manufacturing <sup>1</sup> .....			
Sales.....	29.3 <sup>a</sup>	+ 1.2	- 7.6
Inventories.....	45.3 <sup>a, b</sup>	- 1.1	+ 0.2
New construction activity <sup>1</sup> .....			
Private residential.....	11.5	+ 9.9	- 0.8
Private nonresidential.....	11.3	+ 3.4	+ 3.6
Total public.....	10.8	+15.9	+ 1.4
Foreign trade <sup>1</sup> .....			
Merchandise exports.....	13.5 <sup>c</sup>	- 5.0	-19.3
Merchandise imports.....	10.3 <sup>c</sup>	+ 6.1	-14.6
Excess of exports.....	3.2 <sup>c</sup>	-29.2	-31.7
Consumer credit outstanding <sup>2</sup> .....			
Total credit.....	27.3 <sup>b</sup>	+ 0.7	+ 3.3
Installment credit.....	20.9 <sup>b</sup>	+ 0.0	+ 5.8
Business loans <sup>2</sup> .....	22.2 <sup>b</sup>	- 2.5	- 4.1
Cash farm income <sup>3</sup> .....	23.9	+ 4.8	+41.2
Indexes (1947-49 = 100)			
Industrial production <sup>2</sup> .....			
Combined index.....	123 <sup>a</sup>	0.0	- 9.6
Durable manufactures.....	135 <sup>a</sup>	0.0	-12.9
Nondurable manufactures.....	113 <sup>a</sup>	0.0	- 6.6
Minerals.....	112 <sup>a</sup>	- 0.9	- 2.6
Manufacturing employment <sup>4</sup> .....			
Production workers.....	103 <sup>a</sup>	- 1.2	- 9.8
Factory worker earnings <sup>4</sup> .....			
Average hours worked.....	98	- 1.3	- 4.4
Average hourly earnings.....	135	+ 0.6	+ 2.9
Average weekly earnings.....	132	- 0.7	- 1.7
Construction contracts awarded <sup>5</sup> .....	221	+10.8	- 2.9
Department store sales <sup>2</sup> .....	110 <sup>a</sup>	+ 4.8	0.0
Consumers' price index <sup>4</sup> .....	115	- 0.2	+ 0.8
Wholesale prices <sup>4</sup> .....			
All commodities.....	111	+ 0.5	+ 1.6
Farm products.....	100	+ 1.4	+ 2.6
Foods.....	106	+ 0.5	+ 2.5
Other.....	115	+ 0.4	+ 1.2
Farm prices <sup>3</sup> .....			
Received by farmers.....	95	+ 0.4	- 0.8
Paid by farmers.....	114	0.0	+ 1.1
Parity ratio.....	91 <sup>d</sup>	+ 1.1	- 1.1

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.

<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for March, 1954; comparisons relate to February, 1954, and March, 1953.

<sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1954					1953
	May 29	May 22	May 15	May 8	May 1	May 30
Production:						
Bituminous coal (daily avg.).....thous. of short tons.	1,196	1,192	1,183	1,129	1,113	1,606
Electric power by utilities.....mil. of kw-hr.	8,433	8,373	8,380	8,438	8,390	7,956
Motor vehicles (Wards).....number in thous.	141.2	148.6	143.6	144.5	148.2	114.0
Petroleum (daily avg.).....thous. bbl.	6,332	6,334	6,327	6,321	6,519	6,265
Steel.....1947-49 = 100.....	105.7	106.6	105.2	103.0	101.9	140.8
Freight carloadings.....thous. of cars.....	689	682	678	648	648	787
Department store sales.....1947-49 = 100.....	105	106	97	123	112	97
Commodity prices, wholesale:						
All commodities.....1947-49 = 100.....	111.0	111.3	111.0	111.0	111.1	109.8
Other than farm products and foods.....1947-49 = 100.....	114.3	114.4	114.4	114.5	114.6	113.6
22 commodities.....1947-49 = 100.....	93.1	93.2	92.2	92.3	93.0	88.2
Finance:						
Business loans.....mil. of dol.	21,854	21,975	22,045	22,145	22,183	22,836
Failures, industrial and commercial.....number.....	206	248	248	206	234	168

Source: Survey of Current Business, Weekly Supplements.



# RECENT ECONOMIC CHANGES

## Construction Activity Still Rising

Construction outlays rose more than seasonally in May to a new high for the month of \$3.1 billion. Total expenditures were up 10 percent from April and were 4 percent higher than in May of last year. Both private and public outlays increased during the month, with private expenditures rising 8 percent to \$2.1 billion and public expenditures increasing 13 percent to nearly \$1 billion.

The value of construction put in place during the first five months of 1954 totaled \$13.2 billion. Private outlays were 3 percent higher than in the same period of 1953, whereas public outlays were 1 percent lower.

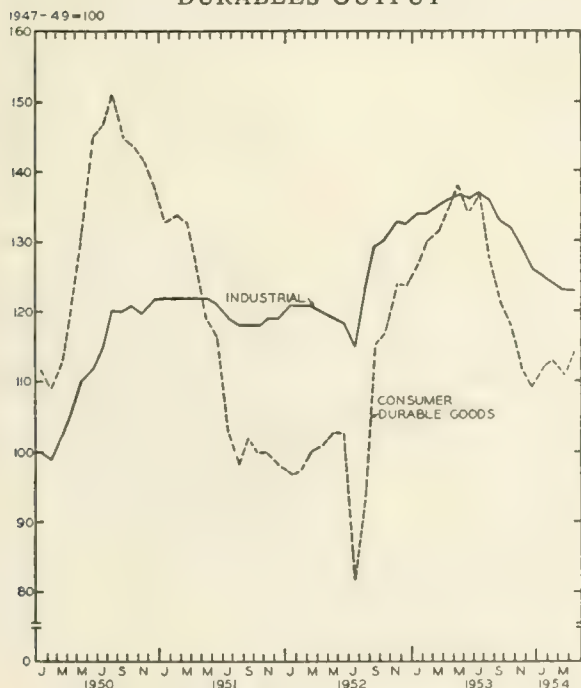
Industrial building and outlays for military facilities are currently at their lowest level since 1951 (industrial spending during the first five months was off 13 percent from last year) and expenditures for conservation, flood control, and hospitals are lower than in any year since 1949. However, peak rates of activity in construction of office buildings, shopping and service structures, schools, churches, public utilities, and highways have carried the construction boom up in 1954.

## Production Levels

Industrial production leveled off in April at the March rate of 123 percent of the Federal Reserve's 1947-49 average. This was the first month since last July's peak that production did not decline. Although output in April was 10 percent below the peak, it was still above post-Korean levels existing prior to the steel strike in mid-1952.

The decline in 1954 reflects mainly continued declines in ordnance output and reduced production of iron and steel and various semi-manufactured metal products. Nondurable goods production, though slightly below last year, has held steady at year-end levels.

INDUSTRIAL AND CONSUMER DURABLES OUTPUT



Source: Federal Reserve Board.

Output of consumer durables, which declined 21 percent between the middle of 1953 and the end of the year, recovered somewhat early this year (see chart). Retail sales of durables declined considerably less than output last fall so that inventory positions of many firms have been improved.

Inventories of television sets have been appreciably reduced as sales picked up more than seasonally in the first four months of this year. Although production of TV sets in April was 25 percent below last April, it was more than 15 percent higher than at the end of 1953. Output of major household appliances was also up, rising about 12 percent from the low year-end level.

Automobile sales during the first four months of 1954 increased seasonally, but were 7 percent below year-ago levels. Stocks currently amount to more than a month's production—a very high level for the end of the peak spring selling season. In April, assemblies totaled 533,000 units compared with 600,000 a year earlier.

## Downward Movement in GNP Continues

Gross national product continued to decline during the first quarter, dropping to a seasonally adjusted annual rate of \$357.8 billion compared with \$363.5 billion in the fourth quarter of last year. The decline centered mainly in further liquidation of inventories and reduced government expenditures. Outlays for producers' durable equipment were also down somewhat, but consumption expenditures were maintained at the fourth quarter rate and construction outlays continued to rise.

### GROSS NATIONAL PRODUCT OR EXPENDITURE

(Seasonally adjusted, billions of dollars at annual rates)

	1st Qtr. 1954	4th Qtr. 1953	1st Qtr. 1953
Gross national product.....	357.8	363.5	363.9
Personal consumption.....	229.8	230.0	227.7
Durable goods.....	28.2	29.1	30.2
Nondurable goods.....	120.4	120.4	121.2
Services.....	81.3	80.5	76.3
Domestic investment.....	46.8	48.8	54.9
New construction.....	26.4	25.3	25.0
Producers' durable equipment	25.2	26.5	26.2
Change in business inventories	-4.8	-3.0	3.7
Nonfarm inventories only..	-4.4	-2.3	4.0
Foreign investment.....	-1.0	-1.0	-2.1
Government purchases.....	82.2	85.7	83.4

### INCOME AND SAVING

National income.....	n.a.	300.8	306.7
Personal income.....	283.2	285.9	281.6
Disposable personal income.....	249.8	249.3	245.4
Personal saving.....	20.0	19.3	17.7

Consumer expenditures totaled \$229.8 billion, virtually the same as in the previous quarter and \$2 billion above the first quarter of 1953. Durable goods purchases were off by \$800 million from the fourth quarter and \$2 billion from the year-ago level. This decline was offset, however, by continued advances in expenditures for services. Much of the increase in consumer expenditures for services—which amounted to \$5 billion from the first quarter of last year—represents higher rents, both actual and imputed, and rising outlays for such services as gas, electricity, and telephone accompanying the continued expansion in home building.

Private investment was down from the fourth quarter, as an advance in construction expenditures failed to

offset an increased rate of inventory liquidation and lower capital equipment outlays. Inventory liquidation in the first quarter amounted to an annual rate of almost \$5 billion compared with \$3 billion in the fourth quarter. Expenditures for capital equipment declined by \$1.3 billion during the first quarter to an annual rate of \$25.2 billion, reflecting the lower level of output early this year and the adequacy of capacity in many industries.

Declining government purchases of goods and services also contributed substantially to the first quarter drop in total national output. State and local government outlays continued to rise, but the increase was more than offset by a decline of almost \$4 billion in Federal government spending. Reduced national security outlays accounted for \$3.1 billion of this decline, with a moderate reduction in other Federal expenditures reflecting some cutback in outlays under the agricultural price support program.

## Used Car Prices Lower

Used car prices, which reached a peak following the 1952 steel strike, declined throughout 1953 and by the end of the year were 20 percent below year-earlier levels after allowance for depreciation. Relative to list prices of new cars and the general level of consumer prices, used car prices were lower at the end of last year than at any time since World War II. As shown by the accompanying chart, used car prices have advanced slightly this year, but are still about on a level with the 1949 low.

Sales of used cars have been as high this year as in the first four months of 1953, according to the Federal Reserve Board. Since prices are down, unit sales are correspondingly higher, so that used car stocks which rose sharply last year have been reduced somewhat during the early months of this year. Nominal new car list prices, on the other hand, have remained stable despite the fact that sales have been below year-ago levels and stocks of new cars have continued to increase. Actual new car prices, however, are down somewhat from year-ago levels.

## Consumer Credit Levels

Consumer credit outstanding increased moderately in April, rising by \$180 million to \$27.3 billion. All of the increase centered in noninstallment credit, reflecting in part increased use of charge accounts during the

Easter buying season. Installment credit was unchanged from the March level of \$20.9 billion. Between March and April of last year installment loans advanced by \$76 million.

Throughout the postwar period consumers have relied heavily on installment credit for purchases of automobiles and other major durable goods. Total installment credit advanced from \$2.5 billion in 1945 to its current level of \$20.9 billion. The ratio of consumer credit to disposable income has risen moderately over the long term. It reached a peak of 11.7 percent at the end of 1953, compared with a previous high of 11 percent reached both in 1940 and in 1952. The relative increase reflects the greater willingness of consumers to go into debt for purchases of durables and the greater availability of such credit. The fact that consumer expenditures for durables have constituted a somewhat higher proportion of total consumer expenditures in recent years is also partly responsible for the increased use of credit relative to income.

Continued advances in installment credit since the end of World War II have been a stimulating factor for the economy, because when new loans exceed repayments they amount to a supplement to aggregate personal income. The rate of growth slowed last year, however, from a seasonally adjusted increase of \$1.3 billion in the first quarter to only \$300 million in the fourth quarter. In the first quarter of this year the total outstanding after seasonal adjustment was reduced by almost \$400 million.

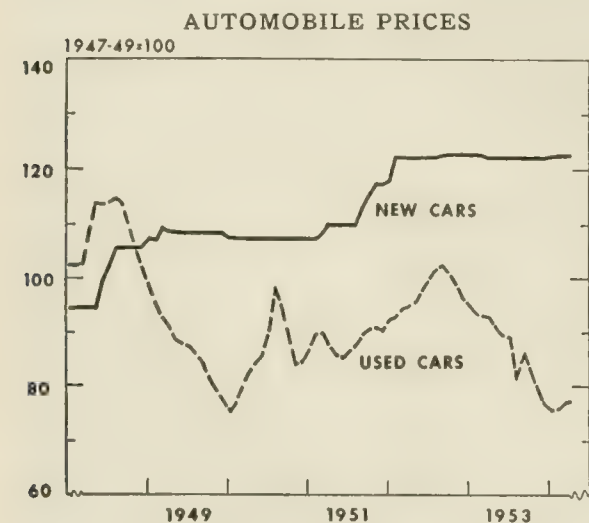
## Unemployment Down

Unemployment declined for the second successive month in May. The decline amounted to 160,000 workers, but total unemployment continued well above last year's level. The number of jobholders increased by a half million workers to 61.1 million during the month. All of the increase reflected expanded farm activity, as agricultural employment was up by more than 700,000 workers whereas nonfarm employment declined by 200,000. This decline resulted from further cutbacks in manufacturing which more than offset gains in other nonfarm industries. Census data in thousands of workers are as follows:

	May 1954	April 1954	May 1953
Civilian labor force.....	64,424	64,063	62,964
Employment.....	61,119	60,598	61,658
Agricultural.....	6,800	6,076	6,390
Nonagricultural.....	54,319	54,522	55,268
Unemployment.....	3,305	3,465	1,306

## Security Offerings Decline

Corporations offered a substantially smaller volume of new securities for cash sale during the first quarter of 1954 than in either the fourth quarter or first quarter of last year. Total corporate offerings in the first quarter amounted to \$1.8 billion compared with \$2.5 billion in the fourth quarter and \$2.0 billion in the first quarter of last year. Reduced offerings by manufacturing and commercial credit companies accounted for the bulk of the contraction. Issues of manufacturing concerns totaled \$300 million, less than half the amount issued in the first quarter of 1953 and the lowest amount since the third quarter of 1950. Offerings by commercial credit companies, which rose sharply last year in response to the large expansion in consumer credit, dropped to less than \$100 million in the first quarter compared with a high of \$600 million in the second quarter of 1953.



Source: Federal Reserve Board.



## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

A new plastic which resists heavy impact and shows a good performance over a relatively wide temperature range has been developed by Marbon Corporation, Gary, Indiana, a subsidiary of Borg-Warner Corporation.

It has already been molded into a number of products, such as radio cabinets, shell fuses, and golf club heads, on a trial basis. The golf clubs were tested on a driving range and found to be in excellent condition after a year's time whereas average driving woods in such usage would have had to be refaced about every month. Other uses for the plastic suggested by the company include piping (where high temperatures are not involved), business machine housings, air conditioner fittings, and appliance and auto components.

Called "Cycolac," the new resin retains its properties in temperatures ranging from 40 degrees below zero to 190 degrees above, and it can be heated to 400 degrees without melting. The plastic will sell initially for 65 cents a pound.

The total population of the United States, including Armed Forces personnel stationed in the country, rose to 158.4 million persons on July 1, 1953, up 5 percent from the 1950 Census. An analysis of state breakdowns indicates that geographical patterns of population change from 1950 to 1953 were similar to those of the 1940's. During the last three years, each of eight western and southwestern states had gains of 8.9 percent or more (see chart). These same states also had large increases from 1940 to 1950. Other areas with a fast-growing population include Florida, Virginia, Maryland, Delaware, Connecticut, and Michigan. Twelve states had fewer citizens in 1953 than in 1950 and in four of them (North Dakota,

[illegible]

Oklahoma, Arkansas, and Mississippi), the population also declined between 1940 and 1950. The remaining areas of the nation reported increases up to 7.5 percent.

A small X-ray unit which uses radioactive thulium instead of electricity for a source of rays has been developed by the Argonne National Laboratory of the Atomic Energy Commission, Chicago, Illinois. A rare mineral which heretofore has had few practical applications, thulium can provide rays comparable in energy to a 100,000-volt X-ray machine. In the new model, which weighs less than 10 pounds, the thulium is mounted in a holder and shield equipped with a shutter mechanism.

The portable machine costs \$40 and has potential uses in both medicine and industry. In the medical field, it is expected to be especially helpful at such isolated locations as Army field hospitals, ships, and remote construction jobs.

An increasing number of families are taking vacation trips by automobile. According to a survey conducted by the Curtis Publishing Company, American families took more than 34 million vacation trips last year, 83 percent of which were by car.

Dependence on the automobile for vacation transportation has risen substantially over the prewar years, a phenomenon which travel authorities attribute primarily to the gain in car ownership. Since 1940, private automobile registrations have increased by more than 5 million to the present total of almost 46 million. Other factors influencing the steadily rising rate of travel by automobile include population increases, higher incomes, extension of the paid vacation policy, and the spread of retirement programs.

A quick and economical blood test for detecting cancer in its early stages has been developed by scientists at the University of California, Los Angeles. The new technique is also capable of distinguishing between benign and malignant tumors and of indicating the response of cancer to treatment.

Known as the Penn-seroflocculation test, the new examination is made as follows: A solution of an "inexpensive crystalline chemical" is added to a blood sample. If the mixture remains murky or milky, the results are considered negative; but a positive test is indicated if small particles form and the solution becomes clear. By dividing the blood serum into its protein fractions, the scientists have in most cases been able to determine whether the positive test is the result of cancer or of some other disease.

More than 10,000 persons have been tested during six years of research and 90 percent of the cancerous individuals had a positive reaction. The other 10 percent were cases in which the cancer was still in the microscopic stage and had not yet entered vital tissue.

# THE TOLL-ROAD MOVEMENT

D. PHILIP LOCKLIN, Professor of Economics

The toll-road movement has swept the country in the postwar period. It has resulted in the completion of several hundred miles of road on which tolls are exacted, and in the undertaking of an even greater mileage which is to be financed in the same way.

In 1953 there were 840 miles of toll highways in the United States in actual operation. In addition, 1,081 miles are currently under construction, principally in the states of Maine, New Hampshire, New York, New Jersey, Pennsylvania, Ohio, and West Virginia; 3,056 miles have been authorized in these or other states; and 1,927 miles have been projected. Studies are under way in many states, including Illinois, to determine the feasibility of still more miles of such roads.

Some information about the toll roads in operation is shown in the accompanying table. It will be observed that the construction cost per mile varies greatly. The wide range is due to differences in construction standards, in topography, and in right-of-way acquisition costs. Some toll roads have been built partly on old rights of way or on old railroad rights of way. Most of them, however, have required completely new rights of way, and in thickly settled areas land acquisition costs are extremely high. Since most toll roads are built to accommodate heavy traffic, they are high-cost roads.

Although the construction costs per mile are high, the vehicle-mile cost of these heavily traveled routes is less than the vehicle-mile cost of ordinary light-density roads. This explains why toll roads on heavily traveled routes can be financed with moderate tolls per mile, usually about 1 cent for ordinary passenger cars.

## Why Toll Roads?

The toll-road movement is primarily a postwar development, although three of the toll roads now in operation were constructed prior to the war. These are the original section of the Pennsylvania Turnpike, the Westchester County Parkway, and part of the Connecticut Parkways. The interest in toll highways in the postwar period arises from the need for large sums of money to finance needed highway reconstruction, particularly on the heavily traveled routes, coupled with difficulties

encountered in attempting to finance these improvements by traditional methods.

The need for an extensive program of highway improvement arises from three main causes. First, there was the suspension of normal programs of highway improvement during the war. Second, the increase in motor-vehicle registrations after the war exceeded all expectations, and has resulted in overtaking existing highway capacity. Lastly, there was a sudden realization that much of our highway system is obsolete. Highways designed for prewar traffic are not properly designed or constructed to carry the increased number of vehicles operating at high speeds which we find today.

Efforts to raise the large sums of money necessary to finance a program of needed highway modernization, estimated at over \$41 billion, have encountered various legal and practical obstacles. Restrictions on state borrowing for highway purposes exist in many states, and these block efforts to finance the reconstruction of the highways by direct state borrowing. Turnpike or toll-road "authorities," however, can be created, at least in some states, which have power to issue bonds secured by tolls. These bonds, if secured only by toll revenues, do not involve the credit of the state. In some instances, however, the state has guaranteed the bonds of the toll-road authority, thus involving the credit of the state but enabling bonds to be sold which bear lower rates of interest than when secured by toll revenues only.

Another obstacle to financing the needed highway improvements through increased gasoline taxes, motor-vehicle registration fees, and other highway-user taxes, arises from the formulas prescribed by the laws of some states for sharing the funds so raised with local units of government. These formulas often leave inadequate amounts to the state for financing such expensive roads as are required on main highway routes, even when the construction is spread out over a long period of years.

Another difficulty, and one which also operates to prevent changes in the apportionment of the funds raised from user taxes, arises from the objection by large numbers of persons to the concentration of a large proportion of highway revenues on a small segment of the highway system, particularly when this interferes with needed improvements on the vastly greater mileage of less heavily traveled roads. Highway revenues from the gasoline tax are produced by gasoline consumed on local and secondary roads and on city streets as well as by that consumed on the main arteries of travel. Public opposition to the concentration of highway expenditures on the limited mileage of heavily traveled roads is easily understood. Resort to the toll device to finance reconstruction of the heavily traveled routes places the burden on those who use them and leaves more revenue in the highway fund for use on other portions of the highway system.

Lastly, the use of tolls shifts to out-of-state users a large part of the cost of providing and maintaining through highways which are frequently used predominantly by out-of-state vehicles. The use of state highway funds to finance high-cost, high-speed highways primarily for the use of out-of-state vehicles often brings objections from those who pay state gasoline taxes and registration fees. Many of the toll roads are used extensively, if not primarily, by out-of-state vehicles. On the New

TOLL ROADS IN OPERATION, JUNE 1, 1953

Toll road	Miles	Cost	Cost per mile
Overseas Highway (Key West)	122	\$ 8,500,000	\$ 69,700
Pennsylvania Turnpike	327	240,750,000	736,200
Westchester County, N. Y., Parkway	25	25,000,000	1,000,000
Merritt and Wilbur Cross Parkways (Conn.)	67	38,000,000	567,100
Maine Turnpike	44	20,600,000	468,200
Buccaneer Trail (Florida)	17	4,600,000	270,600
New Hampshire Turnpike	15	7,500,000	500,000
New Jersey Turnpike	118	255,000,000	2,161,000
Denver-Boulder Turnpike	17	6,000,000	352,900
Turner Turnpike (Oklahoma)	88	38,000,000	431,800
Total	840	\$643,950,000	

Source: Hearings before a Subcommittee of the Public Works Committee, U. S. Senate, *Tolls on Federal Aid Highways* (1953), p. 57.



Hampshire Turnpike, which is a bridge route between the Maine Turnpike and southern New England, 90 percent of the vehicles are from out of the state.

## Why Are Toll Roads Feasible?

Enthusiasm for turnpikes has led to some extravagant notions about this manner of financing highways. It has even been suggested that perhaps this is the way that all highways should be financed instead of by the traditional methods. The toll method of financing could hardly be used on the county, town, or township roads which now account for 78 percent of the highway mileage of the country. On nearly 2½ million miles of the 3 million miles of local rural roads, the traffic averages only 56 vehicles per day, and on approximately 40 percent of the local rural roads the number of vehicles per day is less than 10. To put such roads on a toll basis would result in tolls that would restrict normal road use and impose intolerable restrictions on that freedom of movement which characterizes modern society. The cost of collecting tolls on such lightly traveled roads would be excessive also. Not only on local rural roads, but on much of the state highway system, the volume of traffic is not sufficient to make toll financing feasible.

Other toll-road enthusiasts have envisioned two or more transcontinental highways, and several north-south highways, which would be operated as toll roads. It is doubtful whether there is sufficient long-distance traffic at the present time to justify such a system of toll roads.

Toll roads are not ordinarily feasible unless the traffic density is sufficient to require separation of through and local traffic. It would be objectionable and impractical to levy tolls on highways that must serve local short-distance traffic movements, and to which adjoining and nearby property owners must have access at frequent intervals. Most highways must serve three functions, namely, carrying inter-city through traffic, serving as land-access roads, and serving local movements of persons and property and community functions. Toll financing is impractical on roads that must serve all of these purposes.

Objections to toll roads are sometimes raised in the belief that they represent an unnecessary duplication of highway facilities, since other roads must be maintained more or less parallel to the toll facility to serve the local traffic. The objection does not apply if the density of traffic necessitates or makes advisable the separation of the through and local traffic. A new and limited-access highway, whether a toll road or a free road, is needed in such instances. Construction of a toll road, however, where the traffic is insufficient to require a separation of through and local traffic does represent an unnecessary duplication of facilities. In such instances, furthermore, the construction of a toll facility could lead to neglect of parallel roads which must serve as land-access and local service roads, because an effort might be made to drive as much traffic as possible to the toll facility by discouraging travel on the free roads.

In conclusion, such limited experience as we have had with toll roads seems to indicate that they have a place in the highway system, particularly in the provision of high-cost special facilities at a time when there are unusual demands on the revenues produced by ordinary highway-user taxes. Toll roads, however, should be limited to carefully chosen high-density routes requiring especially expensive facilities which it seems unfair or inexpedient to finance from the general highway fund.

## Trade in a World Divided

(Continued from page 2)

who are so much more dependent on trade than we. Nevertheless, new problems emerge even as the old are being resolved. The dissipation of inflationary pressure brings a threat of deflation. Shortages are hardly relieved in the countries that have worked themselves up from the ruins before surpluses involve them in a competitive struggle. Today, the countries of Western Europe are increasingly able and ready to compete in world markets.

Under these conditions, proposals to reopen trade with the East are "a natural." Behind the Iron Curtain are almost unlimited markets, and in exchange for the exports sent into them, valuable commodities could be obtained at less cost than in the West. Some even go so far as to recommend credits to facilitate expansion of output in those areas.

Such views gain adherents from so basic an attitude as the desire for peace. In this period of comparative relief from economic difficulties, political and military tension assumes overwhelming importance. Fears are heightened by the tremendous destructive power of the hydrogen bomb. Hence, peace becomes the primary objective—not peace at any price, but peace on some kind of "reasonable" terms.

Overriding the proposals to buy the friendship of the East with trade and credits are the hard necessities of the Cold War. The West has set up strategic controls to restrict the military potential of the East. It will not abandon those controls in the absence of a military and political settlement. Nor will it release credits that might build the economic potential of the enemy before there is greater assurance of the outcome. In this kind of restrictionism, the East has also taken part; it has been at least as great an offender through the controls imposed in an effort to integrate the satellite countries into the communist bloc.

What is frequently overlooked in discussions of East-West trade is the fact that though the needs of the West for export markets are great, the needs of the East for imports are greater still. This is particularly true in China and the other undeveloped areas under communist domination. The economic problems of such areas are practically insoluble without outside aid, and the aid available from Russia under present conditions is little more than a pittance. In the economic difficulties of such areas lies a major weakness of the East and, by comparison, a major strength of the West.

The arguments against helping to develop the economic and military potential of the communist bloc will no doubt continue to prevail. The advocates of trade point out, however, that these are not arguments against all trade. On the contrary, trade that is beneficial to both sides should not only be reopened but encouraged. If the strategic items are excluded, if credits are banned, there can still be a massive trade outside these classes.

In China and Indo-China, the communists appear in the role of liberators of the people. Their appeal in such areas is largely based on the idea that capitalist exploitation has been holding the people down. But after they have taken over, the shoe may begin to pinch on the other foot. It is even possible, in the course of time, that they will be forced to deliver or get out. It is not a foregone conclusion, therefore, that their acquisition of a bit of indigestible jungle will be a major tragedy for the rest of the world.

VLB

# LOCAL ILLINOIS DEVELOPMENTS

Business activity in Illinois was generally lower in April than in March. However, construction contracts awarded, farm prices received, and department store sales were major exceptions. As compared with April of last year, coal production, manufacturing employment, steel production, and bank debits were lower, but other indexes showed improvement. Gains of 5 percent or more were registered for petroleum production, electric power production, life insurance sales, and farm prices received.

The all-commodity index of consumer prices in Chicago, which has remained unchanged since the first of the year, declined slightly in April to 116.5 (1947-49 = 100). Compared with the same month a year ago, the index was up 2.0 percent.

## Illinois Oil Production

Three new oil pools were discovered in Illinois during April and productive acreage was extended in four other areas, according to the State Geological Survey. Two of the new pools are near Decatur in Macon County; their discovery expands northward the oil-bearing area of the Illinois basin. The third new pool is Hill East in Effingham County.

Illinois oil production during April, estimated at 5.3 million barrels, was almost 10 percent more than in the same month of 1953. Daily average output, which has been increasing for the past nine months, reached 177,000 barrels, the highest level since December, 1949.

Three counties in which little or no oil was produced a year ago are now centers of interest because of recent oil discoveries. In Saline County, three new pools are being actively developed. In Macon and Christian counties, the successful fracture-treatment of the Blackland well last December stimulated wildcat drilling which has resulted in discovering four new pools in the Blackland-Mt. Auburn area.

## Milk Output Increases

Illinois milk production per cow reached 530 pounds in April, a new record. This was 16 percent above the 10-year average for the month, and 4 percent higher than a year ago. Favorable weather, selective breeding, and improved feeding were largely responsible for the gain in per-cow output. Total milk production in the State during the month was 465 million pounds, 5 percent above April, 1953, and 1 percent above the 10-year average.

Creamery butter output in Illinois continued at a high level with more than 6.4 million pounds of butter produced during March. This boost of 24 percent from March, 1953, and 59 percent from the five-year average was largely the result of an announced decline in price supports. Production of American cheese totaled 4 million pounds in March.

## Employment Up from March

Private nonagricultural employment in Illinois totaled nearly 3.0 million persons in April, up nearly 1 percent from the preceding month. The increase reversed a downward trend which has persisted since last September. Most of the gain, however, was due to seasonal expansion in retail trade, contract construction, finance and real estate, transportation, and service and miscellaneous industries. Trade establishments reported a large pre-Easter increase in employment, and with the coming of

spring, construction firms and service establishments expanded their labor forces.

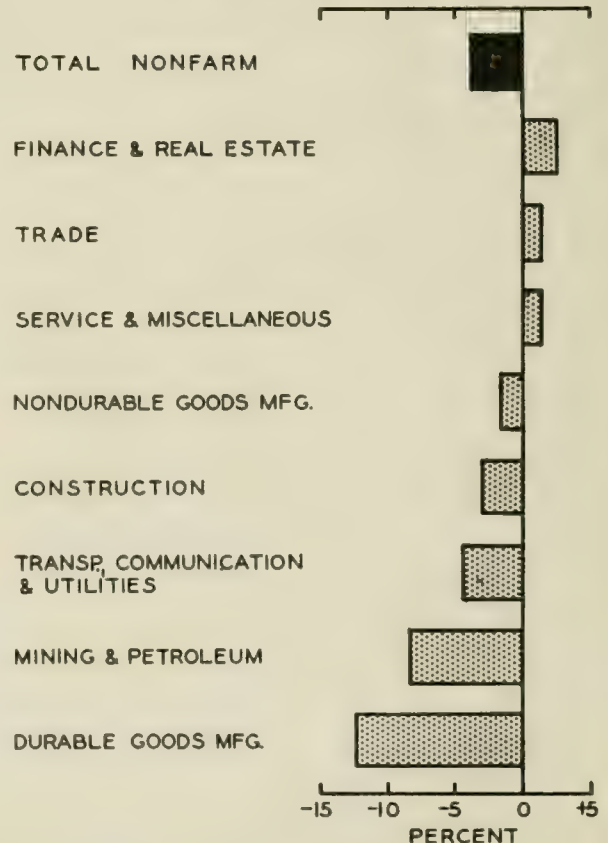
Compared with year-ago figures, however, nonfarm employment was down 4 percent (see chart). Only finance and real estate, trade, and miscellaneous industries registered any gains over April, 1953. Manufacturing employment was off 9 percent, with durable goods producers chiefly responsible for the decline. No hard goods industry had more workers in April, 1954, than in April, 1953. Among the nondurable goods manufacturers only two groups—printing, publishing, and allied industries and petroleum and coal products—reported a higher level of employment than a year ago.

## Steel Production Declines

The sixteen mills in the Chicago District turned out 1.7 million tons of steel during April, 3 percent less than in March and 22 percent less than in the same month last year. The mills operated at approximately three-fourths of their total capacity during the month. On a 1947-49 base, the steel production index for the Chicago District stood at 111.4 as compared with 101.3 for the nation as a whole.

Steel output has lagged behind year-ago figures since October, reflecting the general curtailment of business activity particularly in the automobile and other durable goods industries. During the first four months of 1954, 6.8 million tons have been produced, as compared with 8.3 million tons during the same period a year ago.

**PRIVATE NONAGRICULTURAL EMPLOYMENT**  
Percent change, April, 1953, to April, 1954



Source: Illinois Department of Labor.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

April, 1954

		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b>		<b>\$29,687<sup>a</sup></b>	<b>929,054<sup>a</sup></b>	<b>\$516,037<sup>a</sup></b>		<b>\$12,240<sup>a</sup></b>	<b>\$14,343<sup>a</sup></b>
Percentage Change from	{ Mar., 1954...	+38.8	-4.0	+7.4	+18	-18.5	-3.8
	{ April, 1953...	+14.6	-2.4	-9.6	+2	-3.1	+9.7
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b>		<b>\$19,041</b>	<b>721,732</b>	<b>\$376,613</b>		<b>\$11,177</b>	<b>\$12,534</b>
Percentage Change from	{ Mar., 1954...	+28.0	-4.6	+5.1	+18	-19.3	-3.6
	{ April, 1953...	+15.2	-2.7	-10.1	+3	-3.4	+10.3
<b>Aurora</b>		<b>\$ 675</b>	n.a.	<b>\$ 7,089</b>		<b>\$ 45</b>	<b>\$ 115</b>
Percentage Change from	{ Mar., 1954...	+129.6		+6.3	+25	-9.2	-3.8
	{ April, 1953...	+181.3		-12.6	-10	-1.1	+14.2
<b>Elgin</b>		<b>\$ 202</b>	n.a.	<b>\$ 5,106</b>		<b>\$ 29</b>	<b>\$ 97</b>
Percentage Change from	{ Mar., 1954...	-35.7		+8.8	+22	-5.7	-2.4
	{ April, 1953...	-52.7		-9.8	+9	+7.7	+9.9
<b>Joliet</b>		<b>\$ 755</b>	n.a.	<b>\$11,174</b>		<b>\$ 56</b>	<b>\$ 95</b>
Percentage Change from	{ Mar., 1954...	+67.0		+9.7	+13	-6.0	-6.7
	{ April, 1953...	+11.5		-9.0	-14	-5.4	+8.1
<b>Kankakee</b>		<b>\$ 130</b>	n.a.	<b>\$ 4,969</b>		n.a.	<b>\$ 39</b>
Percentage Change from	{ Mar., 1954...	-51.1		+6.1	n.a.		+11.7
	{ April, 1953...	-31.9		-11.7			+24.3
<b>Rock Island-Moline</b>		<b>\$2,524</b>	<b>19,689</b>	<b>\$ 8,997</b>		<b>\$ 77<sup>b</sup></b>	<b>\$ 153</b>
Percentage Change from	{ Mar., 1954...	+281.3	-1.6	+11.7	n.a.	-3.5	-5.2
	{ April, 1953...	+100.0	-4.1	-15.5		-6.6	-5.8
<b>Rockford</b>		<b>\$2,530</b>	<b>30,618</b>	<b>\$16,105</b>		<b>\$ 133</b>	<b>\$ 209</b>
Percentage Change from	{ Mar., 1954...	+195.2	+0.1	+13.3	+28 <sup>c</sup>	-11.6	-17.0
	{ April, 1953...	+137.1	-8.1	-10.1	+3 <sup>c</sup>	-1.1	+6.4
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b>		<b>\$ 516</b>	<b>6,704</b>	<b>\$ 5,350</b>		<b>\$ 59</b>	<b>\$ 131</b>
Percentage Change from	{ Mar., 1954...	-38.9	-1.1	+14.4	n.a.	-10.6	+17.5
	{ April, 1953...	+41.8	-0.3	-29.1		+6.6	-1.8
<b>Champaign-Urbana</b>		<b>\$ 294</b>	<b>8,128</b>	<b>\$ 7,548</b>		<b>\$ 49</b>	<b>\$ 101</b>
Percentage Change from	{ Mar., 1954...	+64.2	-3.5	+19.2	n.a.	-10.1	+3.5
	{ April, 1953...	+23.5	-2.2	-3.4		-7.6	+3.0
<b>Danville</b>		<b>\$ 107</b>	<b>9,213</b>	<b>\$ 6,104</b>		<b>\$ 41</b>	<b>\$ 54</b>
Percentage Change from	{ Mar., 1954...	-28.7	+3.6	+19.7	+27	-11.8	-15.6
	{ April, 1953...	-78.2	+14.8	-3.7	-1	+4.8	+4.4
<b>Decatur</b>		<b>\$ 624</b>	<b>21,236</b>	<b>\$10,517</b>		<b>\$ 86</b>	<b>\$ 116</b>
Percentage Change from	{ Mar., 1954...	+89.1	-6.2	+19.3	+18 <sup>c</sup>	-11.5	-7.2
	{ April, 1953...	-12.0	-1.5	+1.5	+1 <sup>c</sup>	+2.9	+8.1
<b>Galesburg</b>		<b>\$ 203</b>	<b>6,890</b>	<b>\$ 4,333</b>		n.a.	<b>\$ 34</b>
Percentage Change from	{ Mar., 1954...	+23.8	-0.5	+20.1	n.a.		-8.7
	{ April, 1953...	-8.1	+5.6	+3.6			+3.8
<b>Peoria</b>		<b>\$ 454</b>	<b>42,657<sup>c</sup></b>	<b>\$15,877</b>		<b>\$ 183</b>	<b>\$ 228</b>
Percentage Change from	{ Mar., 1954...	-33.1	-2.2	+12.7	+22 <sup>c</sup>	-6.1	-3.2
	{ April, 1953...	-59.4	-5.9	-11.9	-1 <sup>c</sup>	-3.7	+11.1
<b>Quincy</b>		<b>\$ 379</b>	<b>7,576</b>	<b>\$ 4,865</b>		<b>\$ 34</b>	<b>\$ 71</b>
Percentage Change from	{ Mar., 1954...	+46.9	+7.7	+22.6	+21	-9.1	-6.3
	{ April, 1953...	-63.5	+6.1	-1.9	+9	-0.2	+8.6
<b>Springfield</b>		<b>\$ 468</b>	<b>25,562<sup>c</sup></b>	<b>\$12,839</b>		<b>\$ 97</b>	<b>\$ 233</b>
Percentage Change from	{ Mar., 1954...	+62.5	-5.6	+13.9	n.a.	-7.1	-6.3
	{ April, 1953...	-16.1	+3.8	-7.6		+2.9	+6.7
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b>		<b>\$ 360</b>	<b>12,458</b>	<b>\$ 9,228</b>		<b>\$ 137</b>	<b>\$ 64</b>
Percentage Change from	{ Mar., 1954...	-13.9	+3.9	+17.3	n.a.	-4.8	-8.0
	{ April, 1953...	-32.8	-3.6	-3.6		+6.7	+5.9
<b>Alton</b>		<b>\$ 197</b>	<b>11,060</b>	<b>\$ 4,945</b>		<b>\$ 35</b>	<b>\$ 26</b>
Percentage Change from	{ Mar., 1954...	-5.7	-5.0	+14.3	n.a.	-14.2	-27.2
	{ April, 1953...	+15.9	+1.6	+0.1		+8.5	-12.0
<b>Belleville</b>		<b>\$ 228</b>	<b>5,532</b>	<b>\$ 4,379</b>		n.a.	<b>\$ 42</b>
Percentage Change from	{ Mar., 1954...	+47.1	-6.0	+15.1	n.a.		+0.0
	{ April, 1953...	+162.1	+11.0	-0.2			+13.3

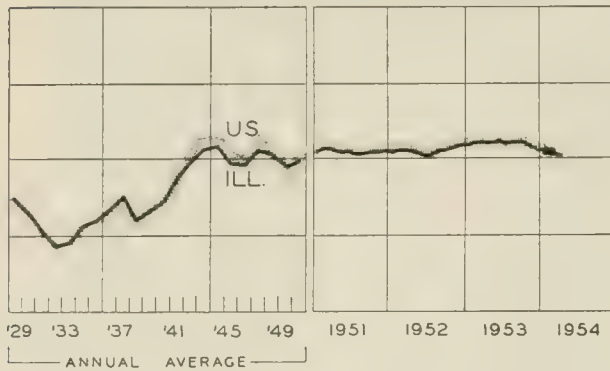
<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.

Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for March, 1954, the most recent available. Comparisons relate to February, 1954, and March, 1953. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

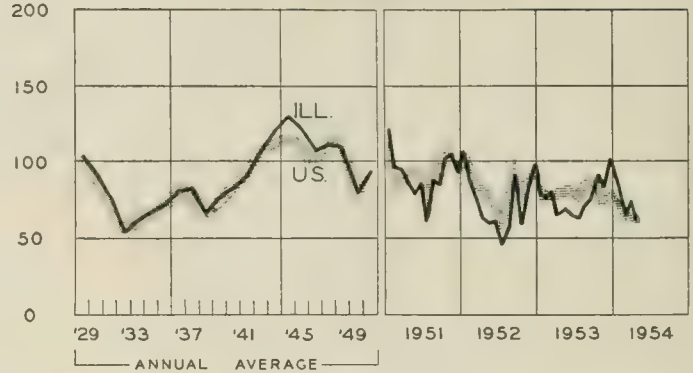
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

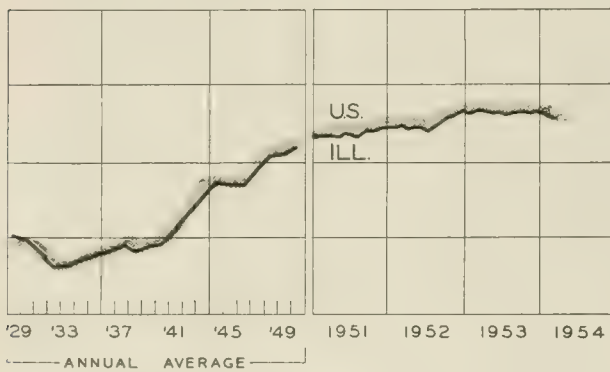
EMPLOYMENT - MANUFACTURING



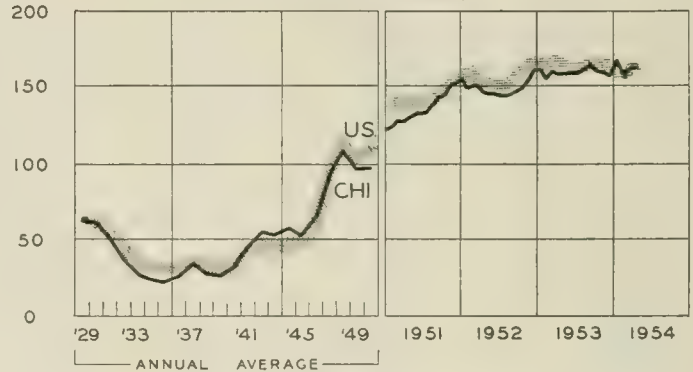
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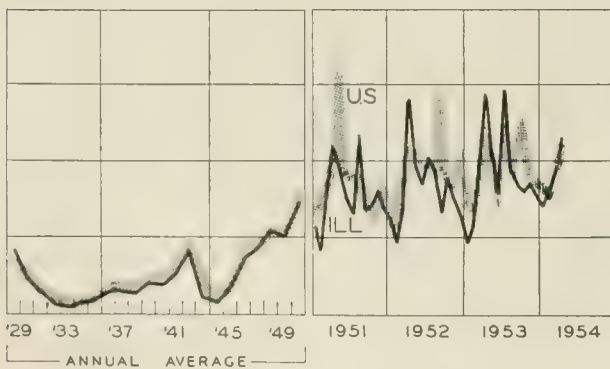
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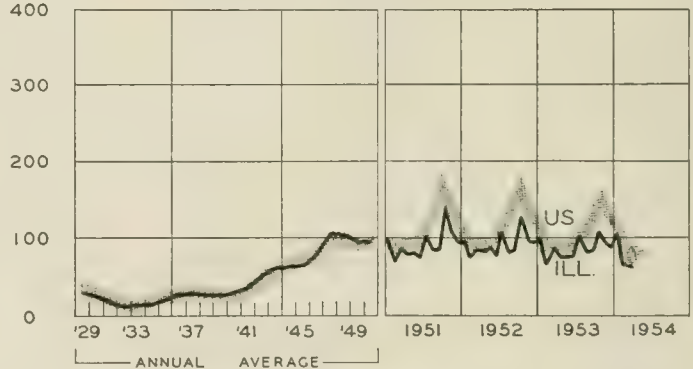
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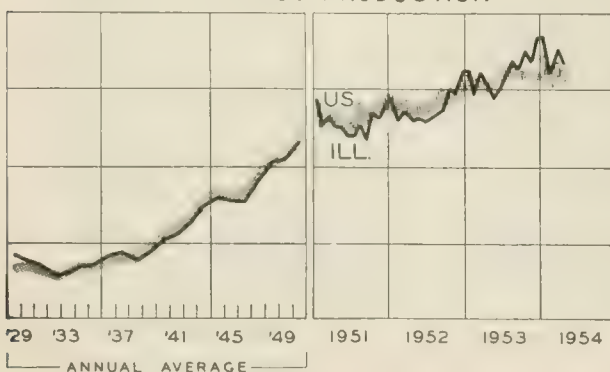
CONSTRUCTION CONTRACTS AWARDED



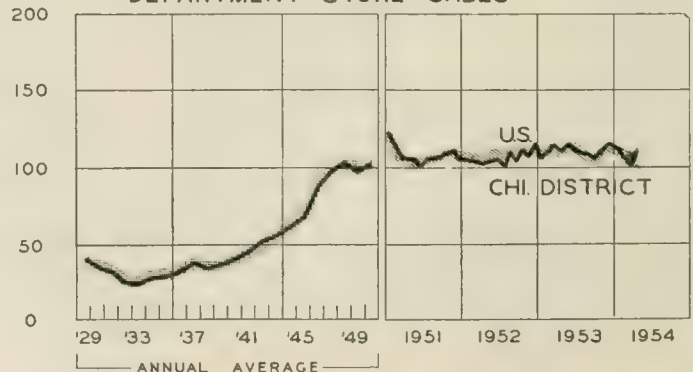
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME XI

JULY, 1954

NUMBER 7

## HIGHLIGHTS OF BUSINESS IN JUNE

Business showed further modest improvement in June. Construction contract awards made a new record high for the month. Electric power output was headed toward a new record; output in the latter half of June was running 6 percent above last year and only slightly below the seasonal high of last January. Department store sales also exceeded last year's in the closing weeks of the month. New claims for unemployment compensation dropped to the lowest level since last October, and the number of unemployed remained at the recent rate of 3.3 million despite the influx of students seeking work.

### Steel Output, Wages, and Prices Rise

The steel industry showed a distinct recovery from April to June. (See p. 5.) Interpretation of this move was clouded by reports that some steel buyers were stocking up against the possibility of a strike at the termination of the contract on June 30.

Wage negotiations were concluded on June 29 with an agreement that provided a direct wage boost of 5 cents an hour and fringe benefits estimated at 4 cents to 7 cents an hour, representing mainly larger retirement pensions. The average cost for the industry was estimated at 10 cents an hour. Approximately 600,000 workers are covered by the contract, which runs until July 1, 1956. As a result of the wage increase, United States Steel announced price boosts averaging \$3 a ton on July 1 and other companies followed suit. However, many steel fabricators have announced that competitive conditions make it impossible to pass the increase on to consumers.

### New Merger in Automobiles

For the third time in about 15 months, a merger has been announced between two of the "independent" auto makers. Kaiser and Willys merged in April, 1953; and Nash and Hudson in May of this year. The latest combination, still subject to stockholder approval, involves the remaining two independent producers, Studebaker and Packard. The combination is expected to strengthen the position of both groups since the new company will have the advantage of a full line of cars.

### Lower Reserve Requirements

The Federal Reserve Board has given the easy money policy another shot in the arm in the form of a cut in

reserve requirements. Reserves required against demand deposits for New York and Chicago banks were lowered from 22 percent to 20 percent; for other reserve city banks from 19 percent to 18 percent; and for country banks from 13 percent to 12 percent. In addition the FRB cut reserves against time deposits from 6 percent to 5 percent. As a result, over \$1.5 billion of reserve money will be released by August 1, allowing bank loan expansion of approximately \$7.5 billion. By lowering reserve requirements at this time, the FRB expects to make additional credit available for the fall pickup in business and to meet the requirements of the United States Treasury, which will be borrowing heavily in coming months as tax collections fall off.

### Farm Prices Drop, Controls Tightened

Farm prices dropped an average of 4 percent in the month ended June 15. The dip was attributed to "seasonal price adjustments to increasing supplies of a few commodities: hogs, wheat, and vegetables." In the same period, prices paid by farmers declined only 1 percent, so that the parity ratio fell to 88 percent, the lowest since March, 1941.

While these changes were taking place, Secretary Benson announced the tightest controls in history on crop production. Wheat acreage will be reduced another 13 percent to 55 million acres; cotton plantings will be reduced; and controls on corn, tobacco, and peanuts will be tightened. A feature of the new program is to restrict production on "diverted acres," either by letting them stand idle or be used only for pasture or other non-supported crops.

### Legislative Action

In Congress, farm price supports headed toward a compromise providing flexibility in the range of 82½ to 90 percent of parity after a sharp split between the Administration and farm state Republicans. Other measures advocated by the Administration were generally meeting with greater success. The tax bill was passed in essentially the form requested by President Eisenhower, and little trouble was encountered in getting a compromise on substantial expansion of the Social Security system. Congress appeared definitely headed toward adjournment on July 31.

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## Another Good Year Ahead

The economy has substantially leveled off after a year of decline. Recovery forces are not yet clearly in the ascendency, but for the time being at least deflation has run its course.

The mixed patterns to be observed in various industries suggest that there may be a few months of bouncing along near the lows before a definite upturn gets under way. For some industries, like farm equipment and textiles, the beginnings of recovery are in sight. Others, like railroad equipment and machine tools, have not yet reached their lows. Autos show both tendencies; production forged ahead in the spring, but inventories are at new highs and output will have to be cut to liquidate the excess by the year end.

### Inventories Dominate the Cycle

The inventory reversal—from an \$8 billion rate of accumulation in the second quarter of 1953 to a liquidation rate of \$5 billion in early 1954—has dominated the recession. The cessation of liquidation seems likely to dominate the recovery in the year ahead.

The actual liquidation up to this point has not been large, amounting to only 5 percent of the unprecedented total of stocks on hand last year. On any reasonable basis of appraisal, inventories are still large—not so large as to force rapid liquidation, perhaps, but large enough to bar accumulation.

As liquidation progresses, there will be constant tendencies to ease the pace, encouraging business to bring the movement to a halt. At some time in the latter part of this year or early in 1955, there will probably be an end to liquidation and possibly even some moderate new accumulation. In this prospect lies the main reason for thinking that there will be some recovery in the year ahead. For the way liquidation will be halted is by bringing production back up to the level of consumption.

An important aspect of this movement, however, is that the position will not change enough to justify any real rebuilding of inventories. Minor liquidation will leave inventories still too large, except for the possible effects of new war scares. Hence, the decline might be resumed at any time. If the recovery becomes a spurt into new high ground, with rapid accumulation again taking place, it is almost sure to be a short-lived boomlet, followed in turn by an even sharper downturn.

## Recovery Likely to Be Limited

In spite of a fairly substantial contribution on inventory account, the recovery does not promise to take on the proportions of a major new advance. There is hardly anything else in the picture that will lend important assistance to the forward movement. Although the possibility cannot be ruled out that a new high in gross national product may temporarily be reached, the chances are that the recovery movement will regain more than half but not all of the lost ground.

There have been a number of factors helping to stop the decline. Construction in particular has displayed remarkable strength. Tax cuts have also made a major contribution. Most of them, however, have already made their contribution in supporting the economy this year. They cannot be regarded as plus factors for the period ahead, because they cannot supply the additional force needed for further expansion.

State and local government expenditures have moved to new high ground and will probably extend the upward trend into 1955. This remains a definitely favorable item, but it will contribute only a billion or two more than at the present time.

Federal government expenditures remain the biggest question mark in the whole picture. After the sharp declines of fiscal 1954, they will tend to level off. Only a little flurry of excitement could send them up again. But Indo-China seems to be moving toward quiet settlement; and if peace prevails, military spending may resume the downward drift.

Construction has given just about all it has to offer. Commercial construction has been the strongest segment of the industry. This is all to the good for the time being, but it may also be interpreted as a sign that the boom is growing old. Certain types of commercial construction tend to lag behind the building cycle as a whole. They fill the gap for a while in the late stages, after confidence has built up through years of growing need, but the need tends to disappear before some of the projects are completed.

Residential construction has also shown strength. The stimulus of low interest rates and down payments has been reflected in a surge of housing starts. There is nothing in sight to induce a similar surge in the year ahead.

Investment in plant and equipment has held up very well. The current emphasis is on the prospects for growth over the longer run. Not so widely recognized is the fact that investment not only provides for growth in output but requires it. A stable level of demand is only enough to keep the slide from accelerating. Even a moderate increase in over-all production will no more than keep investment steady. For the next year capital outlays will probably remain fairly stable, but with the balance generally on the downside.

All these basic factors will at best hold firm, and will more likely fall short of current levels in the latter part of 1955. Consumers will probably contribute to the recovery but no more than growing incomes justify. Savings are now higher than in earlier postwar years, and they seem likely to remain high. Consumers' stocks of durable goods and houses are large enough so that consumers can afford to save a larger proportion of their incomes. In fact, many have to save more to repay the debt they have already built up.

(Continued on page 6)



## **THE ILLINOIS STATE FAIR**

The first Illinois State Fair, held in 1853, was staged on a 20-acre wooded site on the western outskirts of Springfield. Springfield had been selected as the site partly because of its central location and partly because it agreed to furnish the necessary tract of land, buildings, police protection, and \$1,000 to cover expenses.

There were 765 entries and \$944 in prizes offered to winners in the various classes of competition, which included cattle, horses, mules, sheep, swine, poultry, dairy and farm products, and household and farm implements. As many as 10,000 persons came to the Fair on its biggest day and it was considered such a success that it was held in Springfield again in 1854.

During the next forty years the State Fair wandered to 11 other Illinois cities before it was decided to give the Fair a permanent home. Springfield was finally selected as the permanent State Fair site over Peoria, Decatur, and Bloomington in 1894. Since that time, there has been a State Fair every year except from 1942 to 1945 when the Fairgrounds were used as a supply depot by the Army Air Forces.

### **Fair Offers Variety of Exhibits and Shows**

Today, the Illinois State Fair is "big business." From a few temporary buildings on 20 acres of ground the Fair has grown into an enterprise representing a large investment and returning large dividends in education and entertainment. The present fairgrounds embrace 366 acres and are valued at about \$7 million. There are 78 permanent buildings, including 16 cattle barns and 20 horse barns.

On its 101st anniversary, in 1953, attendance was over a million; there were more than 8,000 exhibitors; and a total of \$612,928 in premiums, trophies, and awards was given. Because of the high degree of competition, a "Royal Purple" ribbon from the Illinois Fair has become a mark of distinction and a coveted award among breeders throughout the nation.

Among the exhibits were 611 light horses, 343 stock horses, 155 heavy horses, 85 mules, 590 beef cattle, 338 dual-purpose cattle, 658 dairy cattle, 212 goats, 942 sheep, 2,819 swine, 2,156 chickens and waterfowl, 836 rabbits, and 411 pigeons. Farm products and horticultural exhibits numbered 1,043; floriculture, 1,142; textiles and amateur art, 2,993; culinary products, 2,262; and dairy products, 156.

The Junior Department activity had 2,339 exhibitors and 4,082 entries. In addition, there were many industrial and scientific exhibits of interest to persons of all ages.

### **Many Facilities for Entertainment**

Although the purpose of the State Fair is primarily the promotion of the agricultural, mechanical, and household arts, it also has a large entertainment value and many of its facilities are used mainly for this purpose. The one-mile dirt race track, for instance, is one of the

finest all-purpose tracks in the nation. Normal capacity of the grandstand is 9,842, to which 3,500 more bleacher seats may be added. Merry-go-rounds, Ferris wheels, and other amusements also constitute an important part of the Fair.

Because of the large scale upon which the State Fair is now conducted, it is not surprising that the task of planning it is a year-round job for the manager and his administrative staff. Planning for this year's Fair has been going on for months, and while the broad outline of events is fairly complete, much of the detail planning still remains to be done.

### **President to Visit 1954 Fair**

The 1954 Fair, which runs from August 13 through 22, is designed to interest every segment of the State's population. One of the highlights of the Fair will be a visit by President Dwight D. Eisenhower on August 19, Governor's Day. The President's visit is to be part of the official celebration by Illinois Republicans of the centennial of the founding of the Republican Party.

Many groups have been honored by having special days set aside for them. The first eight days of the Fair have been designated as Children's and Youth Day, Labor Day, Veterans' Day, Ladies' Day, Springfield Day, Democratic Day, Governor's Day, and Farmers' and Editors' Day. The last two have been designated Auto Racing Day and Motorcycle Racing Day to highlight these events.

For many, the race track will be the center of attraction. First comes Grand Circuit harness racing from August 16 through 20. Then, on August 21, the track will be taken over by contestants in the A.A.A. sanctioned 100-mile automobile race. The following day the National Championship A.M.A. sanctioned motorcycle races will take place.

Horse lovers will find other events in addition to the races to interest them. Included on the program are the Illinois State Fair Horse Show in which \$50,000 in cash and trophies is offered and the Western Horse Show in which more than \$6,000 is offered in prizes. The former show occupies the Coliseum from August 13 through 20 whereas the latter has the Coliseum on August 21 and 22. The annual Antique Automobile Meet which was first held at the 1949 Fair and which has proven very popular will be of interest to many.

Other features to be presented include "The Ice Vogues of 1954," the Barnes-Carruthers "All-Star Revue," the WLS "National Barn Dance" (on August 14), and the Amusement Corporation of America carnival in "Happy Hollow" which includes at least 20 rides, side shows, and musical revues.

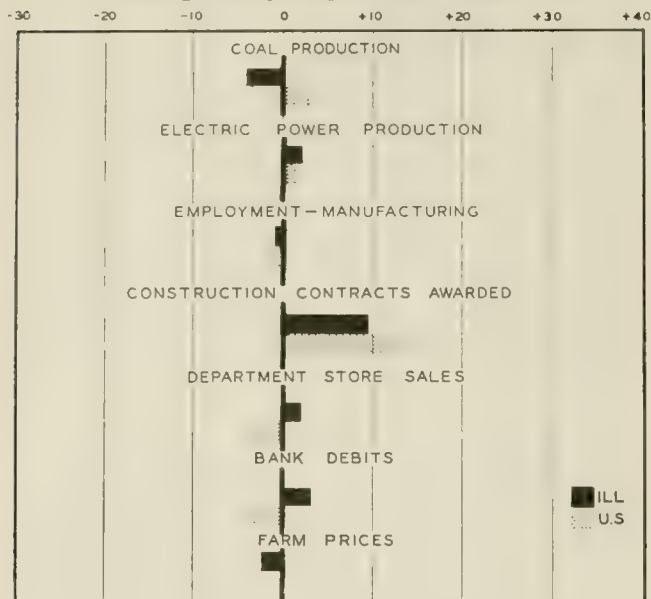
Officials expect that this year's attendance will be larger than ever before and that exhibitors and spectators alike will find the State Fair an interesting and enjoyable experience.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes April, 1954, to May, 1954



## ILLINOIS BUSINESS INDEXES

Item	May 1954 (1947-49 = 100)	Percentage Change from	
		April 1954	May 1953
Electric power <sup>1</sup>	172.3	+2.1	+19.3
Coal production <sup>2</sup>	58.1	-4.1	-16.7
Employment—manufacturing <sup>3</sup>	101.6	-0.9	-9.5
Payrolls—manufacturing	n.a.		
Dept. store sales in Chicago <sup>4</sup>	107.0 <sup>a</sup>	+2.9	-0.9
Consumer prices in Chicago <sup>5</sup>	117.3	+0.7	+2.4
Construction contracts awarded <sup>6</sup>	254.7	+9.5	+22.3
Bank debts <sup>7</sup>	144.4	+3.1	+0.8
Farm prices <sup>8</sup>	105.5	-2.2	-0.4
Life insurance sales (ordinary) <sup>9</sup>	164.0	-4.6	+6.5
Petroleum production <sup>10</sup>	104.5	+6.8	+17.2

<sup>1</sup> Federal Power Commission; <sup>2</sup> Illinois Department of Mines;

<sup>3</sup> Illinois Department of Labor; <sup>4</sup> Federal Reserve Bank, 7th District;

<sup>5</sup> U. S. Bureau of Labor Statistics; <sup>6</sup> F. W. Dodge Corporation; <sup>7</sup> Federal

Reserve Board; <sup>8</sup> Illinois Crop Reports; <sup>9</sup> Life Insurance Agency Man-

agement Association; <sup>10</sup> Illinois Geological Survey.

<sup>a</sup> Seasonally adjusted. n.a. Not available.

## UNITED STATES MONTHLY INDEXES

Item	May 1954	Percentage Change from	
		April 1954	May 1953
Personal income <sup>1</sup>	285.2 <sup>a</sup>	+ 0.3	- 0.4
Manufacturing <sup>1</sup>			
Sales	28.9 <sup>a</sup>	- 1.2	- 6.6
Inventories	44.8 <sup>a, b</sup>	- 0.9	- 2.0
New construction activity <sup>1</sup>			
Private residential	13.0	+11.3	+ 6.9
Private nonresidential	12.3	+ 6.9	+ 2.3
Total public	11.9	+12.9	+ 4.6
Foreign trade <sup>1</sup>			
Merchandise exports	17.1 <sup>c</sup>	+26.5	+ 2.0
Merchandise imports	11.5 <sup>c</sup>	+11.6	- 5.5
Excess of exports	5.6 <sup>c</sup>	+75.0	+21.9
Consumer credit outstanding <sup>2</sup>			
Total credit	27.5 <sup>b</sup>	+ 0.7	+ 1.7
Installment credit	20.9 <sup>b</sup>	+ 0.1	+ 3.6
Business loans <sup>2</sup>	21.6 <sup>b</sup>	- 2.6	- 4.8
Cash farm income <sup>3</sup>	22.8	+ 1.0	- 3.8
Indexes (1947-49 = 100)			
Industrial production <sup>2</sup>			
Combined index	125 <sup>a</sup>	+ 1.6	- 8.8
Durable manufactures	135 <sup>a</sup>	+ 0.7	-13.5
Nondurable manufactures	117 <sup>a</sup>	+ 1.7	- 4.9
Minerals	112 <sup>a</sup>	+ 0.9	- 4.3
Manufacturing employment <sup>4</sup>			
Production workers	102 <sup>a</sup>	- 0.9	-10.9
Factory worker earnings <sup>4</sup>			
Average hours worked	98	+ 0.8	- 3.4
Average hourly earnings	136	+ 0.6	+ 2.8
Average weekly earnings	134	+ 1.3	- 0.7
Construction contracts awarded <sup>5</sup>	252	+13.8	+19.9
Department store sales <sup>2</sup>	109 <sup>a</sup>	- 0.9	- 6.8
Consumers' price index <sup>4</sup>	115	+ 0.3	+ 0.9
Wholesale prices <sup>4</sup>			
All commodities	111	- 0.1	+ 1.0
Farm products	98	- 1.4	+ 0.2
Foods	107	+ 0.8	+ 2.4
Other	115	0.0	+ 0.8
Farm prices <sup>3</sup>			
Received by farmers	96	+ 0.4	- 1.9
Paid by farmers	114	+ 0.4	+ 1.4
Parity ratio	91 <sup>d</sup>	0.0	- 3.2

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.

<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for

April, 1954; comparisons relate to March, 1954, and April, 1953.

<sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1954					1953
	June 26	June 19	June 12	June 5	May 29	June 27
Production:						
Bituminous coal (daily avg.).....thous. of short tons.	1,447	1,325	1,260	1,194	1,206	1,763
Electric power by utilities.....mil. of kw-hr.	8,981	8,850	8,658	8,246	8,433	8,446
Motor vehicles (Wards).....number in thous.	133.9	133.9	141.9	111.3	141.2	162.9
Petroleum (daily avg.).....thous. bbl.	6,411	6,396	6,396	6,367	6,332	6,397
Steel.....1947-49 = 100	107.1	107.4	108.7	104.2	105.7	135.9
Freight carloadings.....thous. of cars	713	707	698	612	689	818
Department store sales.....1947-49 = 100	97	115	111	97	105	94
Commodity prices, wholesale:						
All commodities.....1947-49 = 100	109.9	110.0	110.5	110.7	111.0	109.5
Other than farm products and foods.....1947-49 = 100	114.4	114.4	114.4	114.4	114.3	113.9
22 commodities.....1947-49 = 100	91.9	91.6	93.2	93.0	93.1	86.8
Finance:						
Business loans.....mil. of dol.	21,896	21,973	21,571	21,599	21,854	22,797
Failures, industrial and commercial.....number	215	207	206	218	206	195

Source: Survey of Current Business, Weekly Supplements.



# RECENT ECONOMIC CHANGES

## Inventory Liquidation Continues

Inventory liquidation continued in May as book values declined for the eighth successive month, to \$79.4 billion. This was \$100 million below April, after allowance for the normal seasonal movement, and marked the first month in four years that book values of total manufacturers', wholesalers', and retailers' stocks fell below year-earlier levels. The decline reflected further liquidation of manufacturers' inventories of durable goods, which dropped by \$430 million during the month. Inventories of nondurable goods manufacturing industries rose by \$50 million. Retail inventories were up by \$150 million, and wholesale inventories increased by \$130 million during the month.

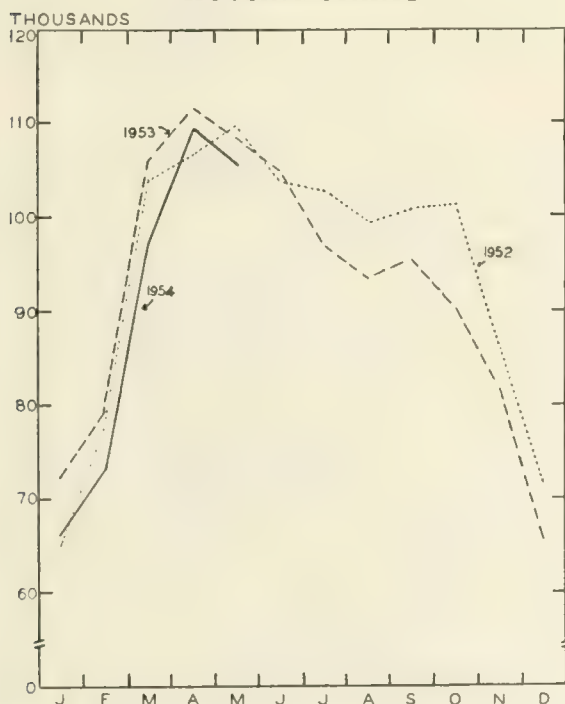
Manufacturers' sales declined by 1 percent in May to \$24.1 billion. This was 6 percent below May of 1953. The lower level this year resulted almost entirely from reduced sales of durables, which were 13 percent below shipments last May. Despite the May decline, seasonally adjusted manufacturers' sales were a half billion dollars above February, when shipments were at their lowest volume since the middle of 1952.

New orders rose slightly during the month to a seasonally adjusted \$23.1 billion. This was 12 percent above the January low, but was still below the current level of sales so that backlogs were reduced moderately.

## Construction Activity Still at Peak

Expenditures for new construction rose seasonally in June to a record for the month of \$3.3 billion, a level that was 7 percent above May and 3 percent above June of last year. Both private and public outlays, at \$2.2 billion and \$1.1 billion respectively, were at new highs for the month. The gain resulted mainly from seasonal increases in private housing and highway construction coupled with further advances in commercial building and public utility construction.

### HOUSING STARTS



Source: U. S. Department of Labor.

The increase in June brought the first half total to \$16.6 billion, 2 percent above the first half of 1953. Private outlays were 3 percent higher, as private residential construction rose 2 percent and nonresidential outlays increased 10 percent. The increase in nonresidential expenditures was mainly the result of a 35 percent gain in commercial building and a 20 percent advance in expenditures for construction of schools, churches, and hospitals which more than offset reductions of 10 percent in industrial construction and in farm building. Government expenditures in the first half were the same as last year's, with declines of over a third in expenditures for dwelling units and military facilities being offset by sharply increased highway and educational building expenditures.

As shown by the accompanying chart new housing starts have been below 1953 each month this year. The smaller number of starts in 1954 reflects the sharp curtailment in public housing expenditures, as private starts have been only slightly below year-ago levels.

## Unemployment Unchanged

Largely because of a smaller than usual influx of students into the labor force in June, unemployment remained virtually unchanged from May at 3.3 million workers. Last June students swelled the unemployment total by 250,000 workers. Despite the absence of the usual seasonal rise, unemployment was more than doubled from June of last year, and 5 percent of the labor force was unemployed. Except for 1949 and 1950, this was a higher proportion than in any June since World War II.

Employment advanced by nearly a million workers during the month to 62.1 million. Most of the increase reflected further seasonal expansion in agricultural employment, which increased by 800,000 workers. Nonfarm employment rose by 200,000 workers, as seasonal advances in construction and food processing more than offset a further decline in manufacturing employment. Census data in thousands of workers are as follows:

	June 1954	May 1954	June 1953
Civilian labor force.....	65,445	64,425	64,734
Employment.....	62,098	61,119	63,172
Agricultural.....	7,628	6,822	8,126
Nonagricultural.....	54,470	54,297	55,046
Unemployment.....	3,347	3,305	1,562

## Saving at First Quarter Peak

Individuals added \$3.3 billion to their liquid saving in the first quarter of 1954. This represented the highest first quarter saving total since the end of World War II. Liquid saving was \$1.4 billion below the fourth quarter, largely a seasonal decline, but was nearly a billion dollars above the first quarter of last year.

The most important element in the increase over last year's first quarter was a substantial reduction in outstanding consumer credit. During the first quarter of 1953 individuals added \$300 million to their outstanding debt. This constituted an offset to other types of liquid saving. In the first three months of 1954, \$1.5 billion of consumer credit was liquidated, the first quarterly period in two years that a net reduction in consumer indebtedness occurred. Mortgage debt, however, continued to increase, rising by \$1.3 billion, almost as much as in the first quarter of last year.

Currency holdings and demand deposits were reduced seasonally by \$3.5 billion, a billion dollars more than last

year's first quarter reduction. However, time and savings deposits continued to grow, rising by \$1.3 billion, \$200 million more than a year ago. Most other types of liquid saving were relatively unchanged from the first quarter of 1953. Saving in the form of securities totaled \$2.3 billion; equity in insurance, including both private and government insurance, rose by \$2.0 billion; and saving in the form of shares in savings and loan associations rose \$1.1 billion.

## Steel Output Steady

Steel production was maintained at the May rate of 7.5 million tons in June, a level 17 percent below June of last year, but 7 percent higher than April of this year, the post-Korean low. Prior to the May advance, production had dropped from a peak of 10.2 million tons in March of 1953 to 7.0 million tons in April (see chart). Production during the first six months of 1954 was 23 percent below the first half of 1953.

The decline from last year is largely a reflection of reduced consumer demand for automobiles and major appliances and cutbacks in business expenditures for machinery and other equipment. As a result automobile production was down 9 percent between the first half of this year and the first half of last; output of major household durables was down 22 percent in the first four months from the same 1953 period; and machine tool shipments were off 15 percent in the January-May period from the year-earlier level. In addition to cutbacks in demand, steel output has dropped even more than consumption because many users have relied on inventories for a part of current production.

The steel operating rate ranged between 68 and 75 percent of capacity during the first half of 1954 and averaged 71 percent for the period. With the exception of the strike-affected period of 1952, the industry utilized close to or over 100 percent of capacity between the middle of 1950 and the middle of last year. The lower

rate of operations this year reflects not only lower production but also higher capacity. Annual steel ingot capacity at the beginning of 1954 amounted to 124.3 million tons, almost 7 million tons more than was in place at the beginning of 1953 and 25 million tons more than existed at the beginning of 1950.

## Farm Income

Cash receipts from farm marketings in May totaled \$1.9 billion, up slightly from April but 4 percent below May of last year. Both livestock and crop receipts were down somewhat from the year-ago levels.

Cash farm income for the first five months of 1954 totaled \$10.3 billion, also 4 percent below the same period of 1953. Receipts from livestock and products amounted to \$7.0 billion, practically unchanged from last year, as slightly lower average prices were offset by increased marketings. Crop receipts, however, were down to \$3.3 billion in the January-May period, 10 percent below last year. This decline reflected a smaller volume of crop marketings and lower prices this year, and centered largely in wheat, cotton, soybeans, tobacco, and vegetables.

## Consumer Credit Rises

Consumer credit outstanding increased in May but the advance was considerably less than seasonal. Total credit rose by \$190 million to \$27.5 billion. In May of 1953 consumers added \$600 million to their outstanding debt.

Noninstallment debt, which consists largely of single payment loans and charge accounts, rose by \$167 million, slightly more than in May of last year. However, installment debt was up by only \$23 million, whereas in recent years the April-to-May advance has averaged about \$100 million. Installment credit in May was nearly \$1 billion below last December, the normal seasonal high. In contrast, installment credit in May of 1953 was \$1.6 billion above the December, 1952, peak.

STEEL PRODUCTION



Source: U. S. Department of Commerce.

## Another Good Year Ahead

(Continued from page 2)

## No Assurance for the Longer Future

The conclusion to be drawn from all this is that we are continuing to live from year to year. So far in the postwar years the dips that have followed each advance have proved mild, but there is no assurance that the next will prove anywhere near so moderate.

This year the result has been remarkably good—though it may not look the same to those who have lost their jobs as to the great majority who continue to enjoy prosperity. Both personal and corporate incomes have remained high, supported by tax cuts in both instances. High incomes and a rising stock market always generate confidence, and in the last nine months the swing from gloom to optimism has been extreme. Dubious theories which hold the economy to be depression-proof again find ready acceptance.

What needs to be emphasized, therefore, is that we have not really had a "readjustment" of the kind which would supposedly permit the economy to move ahead into a long-term, "dynamic" prosperity. New setbacks must always be expected. All that the current prospect offers is a one-year, moderate recovery.

VLB



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Women in the Labor Force

Approximately three out of every ten persons in the United States civilian labor force in April, 1954, were women. This year's 30.8 percent compares with 28.6 percent in 1950 and 25.4 percent in 1940.

As shown by the accompanying chart, two-thirds of all workers in April were between the ages of 25 and 54, and most of the female employees in this group were married. In 1940 single girls accounted for the largest segment of working women, but today there are more than twice as many married women as single in the labor force. The largest number of employed women are wives in the 35 to 54 age bracket. Married women under 35 years of age frequently have pre-school children to care for and many wives past 55 lack the necessary skills and experience to obtain suitable employment.

### Clearer Telephone Conversations

A special telephone whose volume can be adjusted according to the noisiness of the area is being manufactured by Gai-Tronics Corporation, Reading, Pennsylvania. Not only can the telephone adjust both incoming and outgoing voice volume, but it can reduce "side-tone" (the noise picked up on a transmitter and fed to a receiver in the same instrument) to a level below audibility.

Since it eliminates the need for a soundproof booth, the new instrument should be especially helpful for

speaking from a factory floor or some other noisy room. For example, an operator surrounded by electric generators can accurately supply readings of meters and other devices directly from them—a feature which would be particularly important during emergencies.

Available either as a desk-top or a wall-mounted set, the new telephone connects to an existing circuit and requires 110-volt alternating current power supply. Complete with tubes, it is priced at \$149.50 f.o.b. Reading.

### Industrial Atomic Energy

An atomic energy catalog listing the research reactors available for scientific and industrial use has recently been published by North American Aviation, Incorporated, Los Angeles, California. Entitled *Nuclear Reactors for Science and Industry*, the listing is the first in the nuclear field describing research machines the company is prepared to design and build. North American has a water-boiler reactor in use at Downey, California, and another reactor at California Research and Development Company in Livermore working on material research under contract with the Atomic Energy Commission.

### New Type Infrared Lamp

Infrared lamps with tubes made of fused translucent quartz rather than glass have recently been announced by General Electric Company's Lamp Division, Cleveland, Ohio. The manufacturer asserts that the new product will deliver twice as much heat energy using the same amount of current as older-type bulbs. Other features of the "revolutionary" new-type lamp include the ability to withstand high temperatures as well as violent temperature changes; the elimination of a warm-up period; the production of some visible light as well as infrared radiation; and a rated trouble-free life of over 5,000 hours.

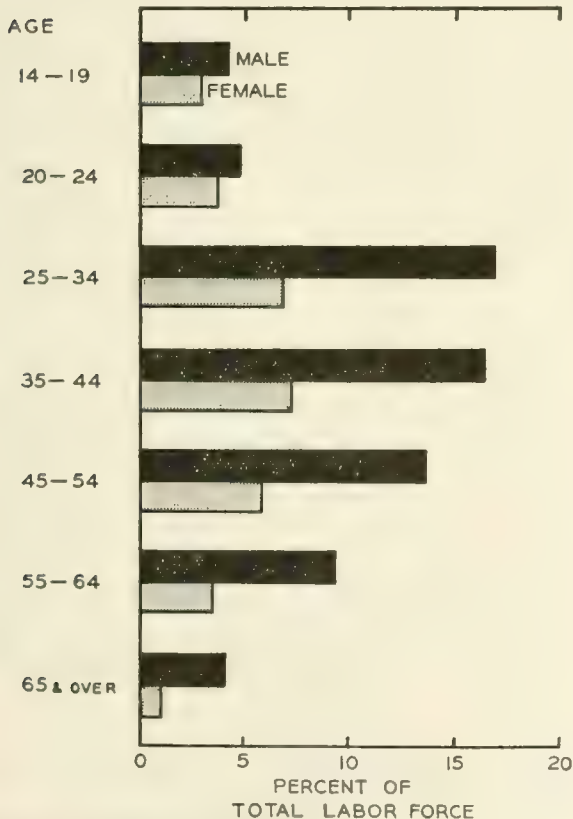
The slender, tubular-shaped lamps are from 5 to 10 inches long and only slightly larger in diameter than a cigaret. The 500-watt models weigh  $\frac{3}{4}$  of an ounce as compared with 4 ounces for the older types. First applications of the lamp are expected to be in industrial radiant drying and baking ovens. Eventually they may be used in ovens and on surface burners of cooking ranges, for house-heating and space-heating equipment, and on many home appliances which require heat.

The 500-watt size retails for \$7 and the 1,000-watt model sells for \$8.50.

### Employment Service

Small or medium-sized businesses which do not maintain full personnel departments can benefit from the various types of technical assistance available from the United States Employment Service, according to *Management Aids for Small Business, Number 41*, Small Business Administration, Washington 25, D.C. The Employment Service is concerned with developing scientific methods for improving recruitment, selection, placement, and utilization of workers. It can help the businessman analyze manpower problems, develop plans of action, and provide specialized assistance and advice. However, the Employment Service does not deal with industrial engi-

LABOR FORCE STATUS BY AGE AND SEX,  
APRIL, 1954



Source: Bureau of the Census.

(Continued on page 9)

# CONSUMER SPENDING HOLDS STEADY

RICHARDS C. OSBORN, Associate Professor of Economics

The recession has had a much more pronounced effect on industrial production, national income, and employment than on disposable personal income and consumption expenditures. Industrial production has decreased almost 10 percent from its peak level, national income has declined about 2 percent, and unemployment has increased to 3,350,000. Total personal income has likewise been reduced by 2 percent; this reduction reflects a 4 percent drop in labor income and a 10 percent decline in farm income, offset in part by slight increases in incomes from professions, rents, interest, and dividends, and a rise of \$2.2 billion in transfer payments (including principally unemployment compensation, old age pensions, and veterans' payments).

No such reduction has taken place in disposable personal income which was, on a seasonally adjusted annual rate basis, the same for the first quarter of 1954 as for the high third quarter of 1953. The continuity of disposable income as compared with total personal income was made possible because of tax reductions.

Maintaining the high level of disposable income helped to hold up the rate of consumer expenditures, which declined in the first quarter of this year by only 0.5 percent from their peak level of \$231 billion. This reduction reflected in part less resort to consumer borrowing as consumers became more cautious in buying on long-term plans. In addition to decreased new extensions, a rise in repayments affected the volume of installment credit. As a result, personal savings rose somewhat.

## CONSUMER INCOME, SPENDING, AND SAVING (Billions of dollars, seasonally adjusted annual rates)

	1953				1954
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.
Total personal income	281.6	284.4	286.8	285.9	283.2
Disposable personal income	245.4	247.7	249.8	249.3	249.8
Personal consumption	227.7	230.4	231.0	230.0	229.8
Durable goods	30.2	30.7	30.4	29.1	28.2
Nondurable goods	121.2	122.1	121.3	120.4	120.4
Services	76.3	77.6	79.2	80.5	81.3
Personal net saving	17.7	17.2	18.8	19.3	20.0

Source: U. S. Department of Commerce, *Survey of Current Business*, May, 1954.

Not all segments of the consumer economy have been affected in the same manner by the recession. As shown in the accompanying table, consumption has been bolstered by the continuation of the long-term upward trend in expenditures for services, including such items as rent, transportation, amusement, and professional services. Part of the continuing increase has resulted from increasing cost of some of these services. The consumption of durable goods has declined 8 percent from its top level compared with a drop of only 1.5 percent in consumption expenditures for nondurables.

## Retail Sales Off

On a seasonally adjusted basis, retail sales reached their peak of \$14.5 billion in February, 1953, and did not change substantially during the next five months of boom

activity and increasing personal incomes. With the decline in business after July, retail sales decreased approximately 4.5 percent. However, the changes in sales were not even. In this period from February to July of 1953 sales of nondurable goods increased somewhat, offset by an early drop in sales of durable goods, especially automobiles. Consumers continued to supplement their income with installment credit so that a further decline in sales of durable goods was limited until the end of 1953. Thereafter repayments began to exceed borrowings, and consumer credit outstanding decreased about \$1.75 billion. Only about half of this decline could be considered as a seasonal adjustment.

Total retail sales showed an increase in April which was the first monthly advance (on a seasonally adjusted basis) since November, 1953. Some observers have questioned the significance of this rise because of the fact that Easter came later in April this year. Adjusted retail sales for May, 1954, were 1 percent below April and 3 percent below May a year ago.

## Durable Goods Chief Factor

The decline in sales of durable goods has been the major factor in the decrease in total retail sales during the recession. Automobile sales, which account for more than half of sales by durable-goods stores, have been the major factor in the movement. Sales of automobiles fell off sharply in the latter part of 1953 although they recovered somewhat in the early months of this year. But there is little expectation that they will equal the outstanding record of last year. It appears that 1954 may be the first postwar year in which automobile activity will return to its customary seasonal pattern. Controls established by the government in the Korean crisis entered the picture in 1951; in 1952 there were strikes and other limitations on production. Last year the industry caught up on the backlog of inventory requirements in spite of being hampered by strikes. The industry is clearly capable of producing in excess of consumer demand for 1954 and in view of a 44 percent advance in dealers' stocks between the first half of 1953 and the first half of 1954, it is likely that production schedules will be adjusted downward in the second half. This was the usual second half movement before the war. The industry is very likely to encourage a larger volume by bringing out 1955 models late in the year according to prewar custom. Present estimates indicate that there will be a market for approximately 5.2 million new cars this year.

Sales of used cars have been relatively good even though prices are lower than a year ago, and this has helped to maintain total sales of automobile dealers. This reflects in part the increased importance of used-car sales but it also suggests the influence of a slump in employment and increased uncertainty. Credit buying has been reduced from approximately 45 percent of dollar sales to less than 40 percent.

Other dealers in durable goods have been subject to a smaller drop in sales. Furniture and appliance stores suffered a 4 percent decline in the second half of 1953 but their sales have partially recovered. Lumber, building, and hardware, on the other hand, witnessed a con-



tinued decline in the first quarter of this year, their sales being about 7 percent below the first quarter of 1953.

## **Nondurable Goods Selling Maintained**

Sales of grocery stores have been instrumental in maintaining the retail volume of nondurables. These stores account for almost a third of sales by nondurable goods stores and a fifth of all retail activity. Their sales were 3 percent higher for the first four months of 1954 than for the corresponding 1953 period. This contrasts with sales by all other soft-goods stores, which have declined slightly. The principal dollar gain in food sales over recent years has gone to the major chains, which now account for 38 percent of the total. The gain for this group is a continuation of a long-time trend which was interrupted by the war, a situation in contrast to the nonfood chain stores which have not increased their proportion of total sales in recent years. The growth of suburban shopping centers has facilitated the development of giant supermarkets. Diversification of sales through the addition of such items as magazines and pharmaceuticals has also encouraged much of this gain by the larger chains. The expansion of total food sales reflects both rising consumer incomes and the upward shift in the proportion of disposable income spent for food.

The sales of eating and drinking establishments have showed only a very small decline. Those of gasoline service stations have continued to increase—a reflection of the larger number of automobiles in use. Wearing apparel is an important nondurable item which showed a considerable decline, with adjusted sales for the second half of 1953 being 8 percent below the first half of the year. The average for the first four months of 1954 was still 5 percent below the similar period a year ago.

Department stores sales provide a cross section of many diversified lines of commodities even though their growth in recent years has not kept pace with total retail sales. Sales of these stores declined a little over 2 percent in the second half of 1953 and approximately an equal amount in the first five months of this year. Their sales showed an increase in April, declined moderately in May, and were above last year's average in June, after seasonal adjustments.

Expenditures for certain items on which the excise tax was reduced had increased markedly in April but it is impossible to measure the relative influence of a later Easter, the elimination of the tax, and the postponement of sales from March because of the anticipated tax reduction. The various departments in the stores have witnessed a sales experience generally comparable with that of other retail stores handling the same merchandise.

Stores in different areas have reflected the variation in regional impact of the recession. The sections which have witnessed a department store volume better than the average have been those in the northern and eastern parts of the country in which farming and heavy industry are of limited importance. These regions have experienced a relatively smaller sales decline because they depend to a greater degree on light industry, the output of which has been maintained more successfully. Areas like those of the Midwest which concentrate on heavy industry, and especially on automobiles, have suffered a more severe setback in business operations.

## **Outlook for Consumer Spending**

Although consumer expenditures have been maintained at a reasonably high level, and have helped to stabilize other factors in the economy, their continuity

at that level will depend over a longer period on the maintenance of industrial production, national income, and employment. If industrial production and employment should continue to decline it may cause a downward spiral in consumption.

Tax adjustments have proved an important factor in the support of disposable income but the major excise taxes are being continued, i.e., those on liquor, tobacco, automobiles, and gasoline. How much effect the reduction of taxes on telephone calls, telegrams, travel tickets, appliances, jewelry, furs, and cosmetics will have cannot be forecast accurately. Increased sales in April may or may not have been merely a reflection of waiting for the tax reductions to become effective. It does not seem likely, however, that the further tax cuts now proposed will have much effect in increasing consumption.

The recession so far has not been severe enough to cause a decline in disposable income which means that the lag in buying durable goods is not to be explained by a lack of buying power. If business concerns wish to encourage consumption they must produce goods which have more appeal than paying off debts and saving; they should exert greater selling effort; and they might well quote lower prices.

Present indications suggest that the recession is losing its force and that production and national income will recover some of their decline, making 1954 a good business year although probably not equal to the level of the previous twelve months. Retail sales for the remainder of this year appear likely to at least maintain their present level but not to reach the high point of the third quarter of 1953.

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## **Business Briefs**

(Continued from 7)

neering fields such as the analysis of plant layout, job simplification, time and motion studies, or job evaluation.

Workers in all occupations—skilled, semiskilled, and unskilled—can be recruited by the Service. If qualified labor is not available locally, the nation-wide clearance system is used. Furthermore, many local offices are equipped to administer trade and aptitude tests. Other services provided by the organization include assistance in analyzing the causes of absenteeism and high turnover; setting up sound personnel records; utilizing veterans' service training in civilian occupations; and determining, for use in locating new plants, areas which have a plentiful labor supply and desirable community facilities. The Employment Service has also published a number of reference manuals, a list and description of which can be obtained without charge from the United States Employment Service, Bureau of Employment Service, United States Department of Labor, Washington 25, D.C.

## **Hay Baler Eliminates Need for Twine**

A new device which bales hay or straw without using twine or wire has been designed for Allis-Chalmers Roto Balers by Twentieth Century Manufacturing Company, Minneapolis, Minnesota. The device automatically stitches a bale together with hay from the outer layers. Since there is no need to stop the tractor to tie bales, as much as one-third of the total baling time can be saved. Once the bale is fastened, the tractor slows down to throw it off. Besides the saving in time, the Balemaster also eliminates the cost of twine or wire as well as removing a hazard to livestock.

# LOCAL ILLINOIS DEVELOPMENTS

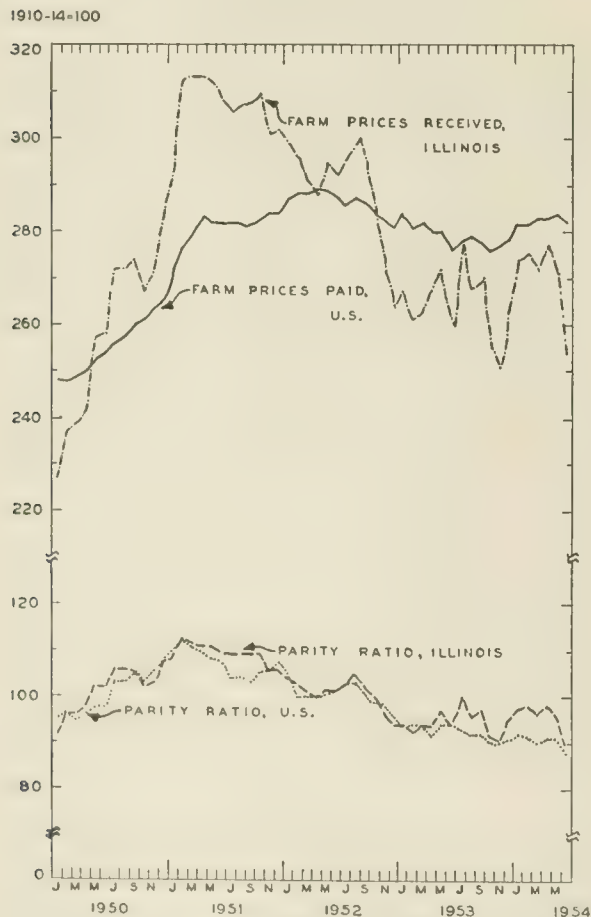
Business activity in Illinois during May was marked by mixed developments. Several important business indicators, notably steel, petroleum, and electric power, showed sizable gains, and construction contracts awarded rose by nearly 10 percent, partly as a result of seasonal influences. Department store sales in Chicago and bank debits were each up about 3 percent from the previous month. On the other hand, coal production was off 4 percent and manufacturing employment was down 1 percent.

## Farm Prices

Farmers in Illinois have fared somewhat better than those in the nation as a whole as far as prices are concerned. The accompanying chart shows that between December and May the ratio of prices received to prices paid in Illinois was at least four points higher than the parity ratio for the United States. In June, the range narrowed, with the Illinois ratio dropping to 90 and the United States ratio to 88.

The all-commodity index of prices received by Illinois farmers on June 15, 1954, was 254 percent of the 1910-14 base, 6 percent below the previous month and 2 percent less than the June, 1953, figure. These declines were mainly the result of lower prices for livestock and livestock products. The index of interest, taxes, wage rates, and prices paid by United States farmers dropped slightly from mid-May to mid-June, to 282 percent of the 1910-14 average.

FARM PRICES



Source: Illinois Department of Agriculture.

## State Government Finances

Illinois state income exceeded expenditures and debt redemption in fiscal 1953 by \$49.5 million, or 6.9 percent, according to the *Summary of State Government Finances in 1953*, recently published by the Bureau of the Census. The percentage difference in Illinois was the same as the average for all state governments.

Revenue rose to \$768.6 million last year in Illinois, up 11.3 percent from fiscal 1952; borrowing produced an additional \$1.9 million. Two-thirds of the revenue came from taxes, including those on general sales, motor fuel, and motor vehicles. Intergovernmental revenue and miscellaneous charges produced \$141.3 million and insurance trust revenue brought in \$112.9 million.

Expenditures totaled \$692.2 million, or 12.8 percent more than in fiscal 1952. Debt redemption amounted to an additional \$28.8 million. Spending for highway construction and repair, public welfare, and education each took more than one-fifth of expenditures. Health, hospitals, and public safety cost the State \$96 million and insurance trust expenses amounted to \$65.6 million.

## Grain Marketing

What usually happens to the price of corn, soybeans, wheat, and oats in Illinois during the year and how much it costs to store these crops for different lengths of time are questions answered in Circular 711, *When to Market Grain*, prepared by L. J. Norton, Professor of Agricultural Economics, University of Illinois. Information about storage costs, shrinkage, and month-to-month price changes, including an explanation of seasonal variations, is contained in the pamphlet. The analyses of corn, wheat, and oats are based on 44 crop years, from 1908 through 1951, and the study of soybeans covers 27 years, from 1925 through 1951. Single copies of the circular are available free of charge from the College of Agriculture, University of Illinois, Urbana, Illinois.

## Work Stoppages

Fewer Illinois employees took part in work stoppages begun during 1953 than in any year since 1942. The State accounted for only 4.2 percent of all workers involved in disputes last year, the lowest level in over a decade. Of those involved in Illinois, three-fourths were employed in the Chicago area, 11 percent worked in the Springfield and the Davenport-Rock Island-Moline areas, and the rest were scattered throughout the State.

Time lost because of work stoppages in Illinois totaled 1.4 million man-days, or 5.2 percent of the national figure. Approximately three-fifths of the idleness in the State occurred in Chicago, 10.4 percent was in the Davenport-Rock Island-Moline area, 4.9 percent in Springfield, and 4 percent in Rockford, Peoria, and Decatur combined.

A total of 315 disputes began in Illinois last year — 6.2 percent of the national total. The number of work stoppages in the country as a whole was about the same as the peak set in 1952, but the number of workers involved in labor-management disagreements in the United States during 1953 declined to 2.3 million employees, compared with 3.5 million in 1952. The decline in idleness caused by disputes both in the nation and in Illinois last year reflects the absence of large or prolonged industry- or nation-wide work stoppages.



# COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

May, 1954

	Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b> .....	<b>\$15,595<sup>a</sup></b>	<b>886,480<sup>a</sup></b>	<b>\$520,936<sup>a</sup></b>		<b>\$12,624<sup>a</sup></b>	<b>\$12,903<sup>a</sup></b>
Percentage Change from... {Apr., 1954.....	-47.5	-4.0	+0.9	+2	+3.1	-10.0
May, 1953.....	-42.5	-4.2	-8.8	0	+0.8	+3.3
<b>NORTHERN ILLINOIS</b>						
<b>Chicago</b> .....	<b>\$4,326</b>	<b>689,503</b>	<b>\$380,425</b>		<b>\$11,565</b>	<b>\$11,280</b>
Percentage Change from... {Apr., 1954.....	-77.3	-4.5	+1.0	+3	+3.5	-10.0
May, 1953.....	-77.1	-4.4	-8.8	0	+1.4	+3.4
<b>Aurora</b> .....	<b>\$ 675</b>	<b>n.a.</b>	<b>\$ 7,353</b>		<b>\$ 46</b>	<b>\$ 106</b>
Percentage Change from... {Apr., 1954.....	0.0		+3.7	-16	+1.3	-7.9
May, 1953.....	+181.3		-11.3	-26	+2.4	+12.7
<b>Elgin</b> .....	<b>\$ 921</b>	<b>n.a.</b>	<b>\$ 5,397</b>		<b>\$ 30</b>	<b>\$ 77</b>
Percentage Change from... {Apr., 1954.....	+355.9		+5.7	-6	+3.6	-21.4
May, 1953.....	+108.4		-7.0	0	+6.1	+0.5
<b>Joliet</b> .....	<b>\$ 760</b>	<b>n.a.</b>	<b>\$10,695</b>		<b>\$ 56</b>	<b>\$ 70</b>
Percentage Change from... {Apr., 1954.....	+0.7		-4.3	+19	-0.1	-26.4
May, 1953.....	-21.7		-13.7	-13	-6.6	-1.0
<b>Kankakee</b> .....	<b>\$ 190</b>	<b>n.a.</b>	<b>\$ 5,224</b>		<b>n.a.</b>	<b>\$ 33</b>
Percentage Change from... {Apr., 1954.....	+46.2		+5.1	n.a.		-15.6
May, 1953.....	-47.5		-11.1			-2.8
<b>Rock Island-Moline</b> .....	<b>\$2,052</b>	<b>17,850</b>	<b>\$ 9,711</b>		<b>\$ 84<sup>b</sup></b>	<b>\$ 164</b>
Percentage Change from... {Apr., 1954.....	-18.7	-9.3	+7.9	n.a.	+9.0	+7.1
May, 1953.....	+141.7	-6.3	-10.7		-6.1	+11.3
<b>Rockford</b> .....	<b>\$1,121</b>	<b>27,931</b>	<b>\$16,037</b>		<b>\$ 137</b>	<b>\$ 178</b>
Percentage Change from... {Apr., 1954.....	-55.7	-8.8	-0.4	-11 <sup>c</sup>	+2.7	-14.7
May, 1953.....	-48.6	-12.4	-13.9	-7 <sup>c</sup>	-3.5	+2.7
<b>CENTRAL ILLINOIS</b>						
<b>Bloomington</b> .....	<b>\$ 516</b>	<b>6,195</b>	<b>\$ 5,398</b>		<b>\$ 55</b>	<b>\$ 112</b>
Percentage Change from... {Apr., 1954.....	0.0	-7.6	+0.9	n.a.	-7.0	-14.6
May, 1953.....	+90.4	-1.3	-25.4		-8.4	-19.8
<b>Champaign-Urbana</b> .....	<b>\$1,260</b>	<b>7,905</b>	<b>\$ 7,149</b>		<b>\$ 50</b>	<b>\$ 91</b>
Percentage Change from... {Apr., 1954.....	+328.6	-2.7	-5.3	n.a.	+2.4	-10.2
May, 1953.....	+566.7	+7.2	-7.0		+1.4	+11.6
<b>Danville</b> .....	<b>\$ 125</b>	<b>8,695</b>	<b>\$ 5,550</b>		<b>\$ 42</b>	<b>\$ 53</b>
Percentage Change from... {Apr., 1954.....	+16.8	-5.6	-9.1	-5	+2.6	-1.4
May, 1953.....	-43.4	+7.3	-14.0	-10	+12.5	-1.1
<b>Decatur</b> .....	<b>\$ 766</b>	<b>21,202</b>	<b>\$10,901</b>		<b>\$ 86</b>	<b>\$ 108</b>
Percentage Change from... {Apr., 1954.....	+22.8	-0.2	+3.7	-3 <sup>c</sup>	+0.2	-6.4
May, 1953.....	+37.8	+2.1	+9.1	-7 <sup>c</sup>	+11.3	+11.2
<b>Galesburg</b> .....	<b>\$ 150</b>	<b>6,607</b>	<b>\$ 4,161</b>		<b>n.a.</b>	<b>\$ 33</b>
Percentage Change from... {Apr., 1954.....	-26.1	-4.1	-4.0	n.a.		-3.8
May, 1953.....	+72.4	+10.2	-8.0			+8.7
<b>Peoria</b> .....	<b>\$1,648</b>	<b>40,757<sup>c</sup></b>	<b>\$16,618</b>		<b>\$ 175</b>	<b>\$ 205</b>
Percentage Change from... {Apr., 1954.....	+263.0	-4.5	+4.7	-5 <sup>c</sup>	-4.6	-10.2
May, 1953.....	+220.0	-10.4	-8.4	-8 <sup>c</sup>	-28.2	+6.8
<b>Quincy</b> .....	<b>\$ 311</b>	<b>7,490</b>	<b>\$ 4,736</b>		<b>\$ 34</b>	<b>\$ 69</b>
Percentage Change from... {Apr., 1954.....	-17.9	-1.1	-2.6	-9	-2.3	-2.8
May, 1953.....	-3.4	+9.7	-6.7	-1	-1.7	+0.8
<b>Springfield</b> .....	<b>\$ 317</b>	<b>24,920<sup>c</sup></b>	<b>\$12,834</b>		<b>\$ 98</b>	<b>\$ 196</b>
Percentage Change from... {Apr., 1954.....	-32.3	-2.5	-0.0	n.a.	+0.7	-15.8
May, 1953.....	-38.4	+5.6	-8.9		+7.8	-9.3
<b>SOUTHERN ILLINOIS</b>						
<b>East St. Louis</b> .....	<b>\$ 177</b>	<b>11,539</b>	<b>\$ 9,416</b>		<b>\$ 131</b>	<b>\$ 59</b>
Percentage Change from... {Apr., 1954.....	-50.8	-7.4	+2.0	n.a.	-3.9	-6.8
May, 1953.....	-24.4	-10.2	-3.0		+5.8	+15.4
<b>Alton</b> .....	<b>\$ 176</b>	<b>10,485</b>	<b>\$ 4,935</b>		<b>\$ 34</b>	<b>\$ 29</b>
Percentage Change from... {Apr., 1954.....	-10.7	-5.2	-0.2	n.a.	-2.9	+11.7
May, 1953.....	+40.8	-1.8	-2.2		+6.5	+12.1
<b>Belleville</b> .....	<b>\$ 104</b>	<b>5,401</b>	<b>\$ 4,395</b>		<b>n.a.</b>	<b>\$ 40</b>
Percentage Change from... {Apr., 1954.....	-54.4	-2.4	+0.4	n.a.		-5.8
May, 1953.....	-31.1	+2.4	+1.8			+9.0

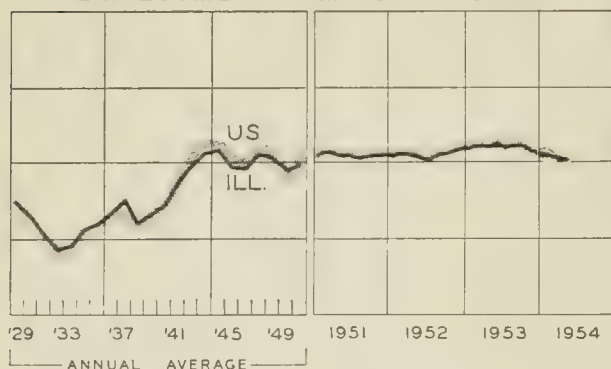
<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.

Sources: U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for April, 1954, the most recent available. Comparisons relate to March, 1954, and April, 1953. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

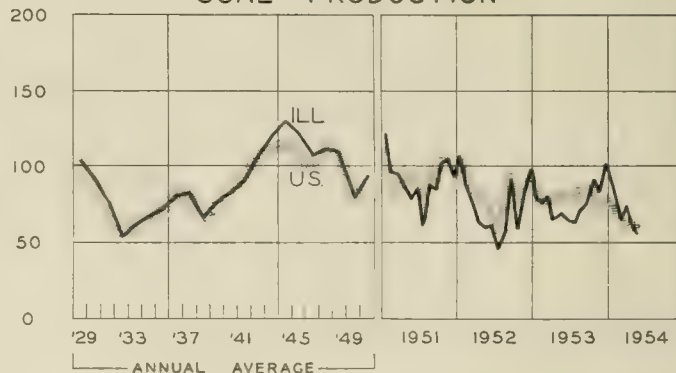
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

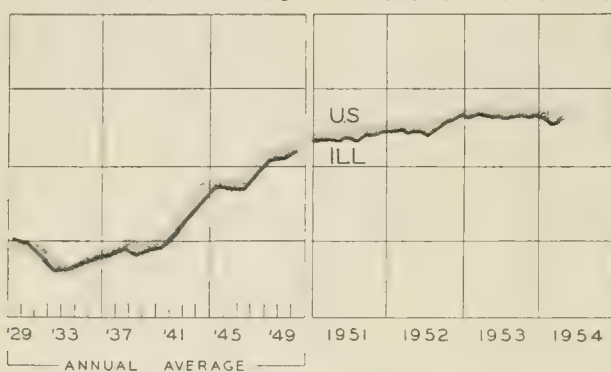
## EMPLOYMENT - MANUFACTURING



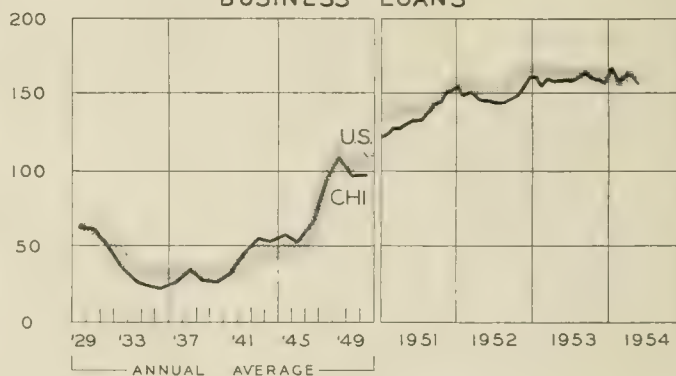
## COAL PRODUCTION



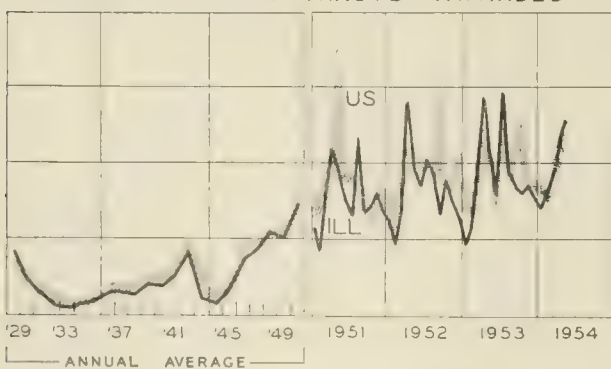
## AVG. WKLY. EARNINGS — MANUFACTURING



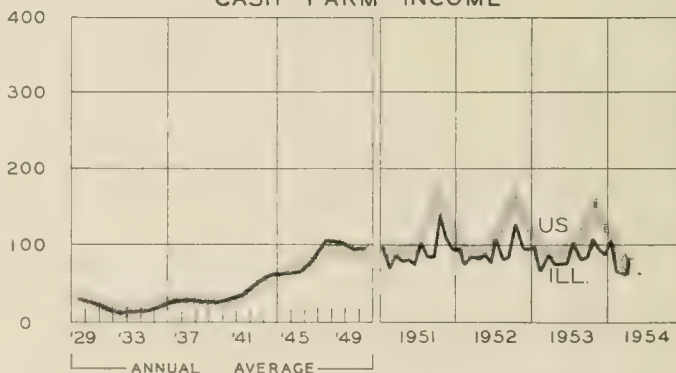
## BUSINESS LOANS



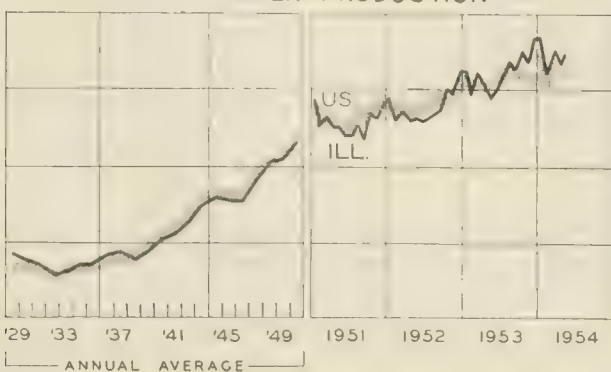
## CONSTRUCTION CONTRACTS AWARDED



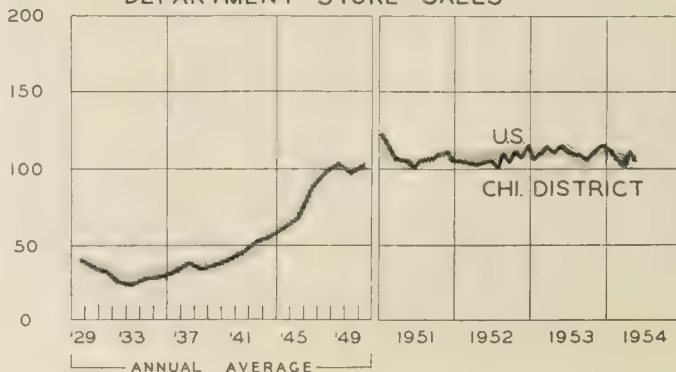
## CASH FARM INCOME



## ELECTRIC POWER PRODUCTION



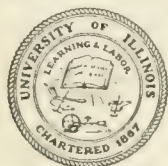
## DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME XI

AUG 12 1954

AUGUST, 1954

NUMBER 8

## HIGHLIGHTS OF BUSINESS IN JULY

Business activity in July declined moderately as a result of slowdowns occasioned by holidays and vacations. Iron and steel operations were down to 65 percent of capacity during the first part of the month, lumber output was lower, freight carloadings were substantially below year-ago levels, and automobile output dropped sharply, largely as a result of a strike at Chrysler Corporation plants. Reflecting the slackening of industrial operations, business loans of principal New York and Chicago banks declined during the first three weeks of the month.

Business was better in other segments of the economy. Department store sales in the first half of July were somewhat above those of the corresponding period of last year and construction activity was maintained at high levels. Prices remained firm as the heat wave bolstered farm prices and seasonal increases in retail food prices kept consumer prices near record levels.

### Homebuilding Activity Increases

The demand for new homes continued at a record pace in June. Moving counter to the usual seasonal trend, the number of homes on which construction was begun in June rose 12 percent from May to a total of 120,000. This was also considerably above the 105,000 new housing starts reported last June.

Back of this increased activity has been an upsurge in private homebuilding. Though higher in June, public housing starts so far this year have been less than half as numerous as in the first half of 1953. Private homebuilding, however, exceeded year-ago levels during the first six months of this year.

### Retail Sales Higher

Retailers' sales in June were generally higher than in the preceding month, according to preliminary estimates. On a seasonally adjusted basis, sales of retail stores were about 2 percent above May though 1 percent below the level of sales in June, 1953. Substantial gains in sales from the preceding month were experienced by motor vehicle dealers and by apparel and general merchandise stores.

Retail sales for the first six

months of this year were slightly less than in the first half of last year. Sales of apparel stores, lumber, building, and hardware stores, and motor vehicle dealers were down 5 percent or more on the average. The only group to register a substantial gain in sales was gasoline service stations, whose volume of business increased 7.5 percent.

### Federal Deficit Reduced

The Federal government ended its 1954 fiscal year on June 30 with a reduced deficit of \$3.0 billion. This is less than earlier estimates of the year's deficit and is considerably below the deficit of \$9.4 billion incurred in the previous fiscal year.

The big difference between this last fiscal year and fiscal 1953 was a \$6.9 billion drop in expenditures, from \$74.5 billion to \$67.6 billion. Reductions in defense activities accounted for most of the drop, with cuts made in military expenditures as well as in such related activities as mutual aid and stockpiling of strategic and critical materials.

Federal receipts were slightly below the \$64.8 billion collected in fiscal 1953 and well below earlier estimates. Lower income tax payments by individuals and corporations and higher refunds than expected were said to be the reasons for the lower receipts.

### More Surpluses in Prospect

The fourth largest crop in history is the farm prospect for 1954, despite Federal restrictions designed to reduce acreage planted by 7 percent. The reduced plantings were more than offset by better insect control, smaller losses caused by weather conditions, and record yields, according to preliminary estimates of the United States Department of Agriculture released in early July.

Production of every major crop is expected to be more than last year except for wheat and cotton. The latter were crops on which tight acreage controls had been placed. These controls, however, only served to increase the production of other crops. Instead of taking the surplus acreage out of production, as many had thought would be the case, farmers diverted it to raising other crops.

Because of the annual vacation of the University Print Shop this issue of the *Review* is reduced in size. It omits the usual statistical data, which are generally not yet available. We shall be glad to send copies of the missing tables to anyone requesting them. The next issue will contain the usual 12 pages.

# ILLINOIS BUSINESS REVIEW

Published monthly by the  
BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
UNIVERSITY OF ILLINOIS

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. The *Review* will be sent free on request.

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## Outlook for Wages and Prices

Divergent views of the business situation appear to underlie the steel agreement reached last month. The labor view is pessimistic. Labor feels that unemployment is already "intolerably high" and that it will go higher unless effective action is taken by the government. Union officials thought they were getting all they could with an improvement of five cents an hour in direct wages and another five cents in "fringe benefits." Management appears to view business conditions more optimistically. Although reluctant to raise costs and prices, it felt that the market could absorb a price increase. It raised prices \$3 a ton, approximately enough to cover the additional cost of production.

Perhaps the one view is too gloomy and the other too sanguine, if the recovery movement progresses as forecast on this page last month. Some implications of that forecast for employment, wages, and prices provide interesting sidelights on the situation as a whole.

### Competition for Jobs

During the past year, unemployment increased by roughly 2 million. About two-thirds of the increase resulted from lower employment and the other third from growth in the labor force. The increase was moderated somewhat by reductions in working hours; overtime has generally been eliminated, and operations in many plants have been put on a three or four day week in preference to letting workers out completely.

The incidence of the additional unemployment was concentrated in a few industries and areas, so that in some localities it reached depression levels. Practically all of the loss in employment took place in manufacturing and mining. The durable goods industries were the most seriously affected. Such major steel-consuming industries as ordnance, autos, farm machinery, and railroad equipment experienced the most drastic cutbacks; and while steel reflected these cuts, it had steadier markets elsewhere.

Unemployment in industries like these is a serious matter for the workers. There is no secondary labor force which can readily be displaced in favor of regular workers. Plants are not only large, but concentrated in a few areas where other jobs are relatively scarce. If other work can be found at all, it is likely to be on much less attractive terms.

The changes are clearly reflected in the data on labor disputes and turnover. Work stoppages have been running about 40 percent below last year. Turnover is also down. The accession rate has been a third lower. The separation rate is down only a little, but last year the quit rate was over twice as high as the layoff rate, and this year layoffs are over twice as high as quits. In other words, competition among workers for the available jobs has increased sharply.

### Wage-Price Stability Ahead

In the year ahead, diverse factors will be affecting the level of employment. Increased production will create some openings. The number will be small, however, because the rise in production will be limited, and it will be offset in large part by increased efficiency, which makes fewer man-hours necessary for a given amount of work. Even if working hours are reduced a little further, the number of additional jobs will be small. At the same time, the labor force will be growing. Perhaps the growth will be somewhat less than in the past year, but it should still be enough to keep unemployment at the 3 million level.

Under these conditions, the comparative quiet of recent months may continue through most of fiscal 1955. Labor will continue to face unemployment and will settle for moderate increases, as it has in the steel negotiations. It will continue to call for government action; but the government has never accepted responsibility for local situations and does not now consider the over-all situation unsatisfactory. Nothing is likely to be done, and there is nothing else in prospect, to bring back the tight labor markets of the Korean war years.

The developments that brought the rise in unemployment have also created problems for management. Capacity is ample in most industries, and the return to a competitive fight for markets puts management under pressure to cut costs. In some industries, the effects of these changes have been moderated by elimination of the excess profits tax; but this, too, leads to cost-cutting, because wasted dollars can no longer be so highly discounted as government money. Management, therefore, will resist further wage demands. Further increases will no doubt be granted, but on the whole, they probably will not exceed the steel settlement, which amounts to less than 5 percent and has two years to run. In short, the long upward trend in wage rates will be tending to level off.

Not only are the wage increases in prospect moderate, but they will be largely compensated by increased productivity. This means that unit labor costs will show little or no change, and this stability in unit labor costs suggests that prices too will hold at about the present level. With costs steady, market pressures will be decisive in determining price policy. Conditions will be good enough to make widespread price cutting unnecessary, and the struggle for increased market shares will rule out most advances. Efforts at strengthening the price structure in industries like textiles and oil are directed more at eliminating recent weaknesses than at achieving new gains. The comparative stability of wholesale prices during the last year may be projected into the year ahead.

Going into 1955, with recovery in progress, there will be a tendency to discount labor's pleas for action as "crying wolf." But this may prove to be a dangerous assumption. For if unemployment shows no decline while business is moving up, what will happen when business turns down?

VLB



### COAL MINING

The first coal discovered in Illinois was found by La-Salle's expedition to America in 1679. The expedition's letters and journals report the finding of coal in numerous places in what is now Illinois. These reports hold the first indication of what has since been found to be true — that a very large percentage of the State's area is underlain with coal.

It is estimated today that bituminous coal deposits amounting to more than 170 billion tons lie under about two-thirds of the State's area. This means that of all the states, only Colorado has greater soft coal reserves than Illinois. In production Illinois stands in fourth place among the states behind Pennsylvania, West Virginia, and Kentucky, and produces over 10 percent of the nation's coal.

Illinois mines employ almost 30,000 men and provide a payroll of about \$120 million per year. Of the 50 largest producing mines in the United States in 1951, 10 were Illinois mines. One of these, the Peabody Coal Company's Mine Number 8 located near Tovey in Christian County, was the second largest producer in the country.

Although 69 counties in the State have recorded production of coal, the greater part of Illinois coal production is highly concentrated. Eleven counties — Knox, Fulton, Christian, Macoupin, Madison, St. Clair, Perry, Franklin, Williamson, Saline, and Vermilion — produced more than 100 million tons during the period 1882-1952. These same counties accounted for almost 80 percent of the State's production in May, 1954.

#### Industry Faces Problems

That the coal industry has for a number of years been faced with a sagging market is common knowledge. Illinois coal producers have suffered more from declining demand than have coal operators in general. Whereas coal production for 1953 was over 2 percent greater than the 1935-39 average for the United States as a whole, Illinois coal production was down about 6 percent from the same period.

The explanation lies in the relative changes in demand in the markets for which Illinois mines produce and in those for which the Eastern mines produce. Two of the four major groups of bituminous coal consumers have decreased their consumption, and both of these groups have been important outlets for Illinois coal.

The first of these consumers, the railroad industry, has reduced its use of coal by about one-third in the last 15 to 20 years and by over half from the World War II peak year of 1944. The second group, commercial and residential users of coal, decreased their consumption by almost 40 percent from the peak year of 1945.

#### Areas of Strength

One of the most important factors keeping coal consumption from dropping still faster has been the steady increase in coal consumption by the electric utility industry. Coal consumption in 1951 for power production

stood at about 170 percent of the 1935-39 average. This has been a sustaining factor for both the Eastern and Midwestern coal fields.

The second consumer group whose demand for coal has increased since the 1930's is the iron and steel industry. It is primarily this industry's demand which has put the Eastern coal fields in an advantageous position relative to Illinois mines. Since the overwhelming majority of veins of metallurgical-grade coal are found in Pennsylvania and West Virginia, most of the 70 percent increase for that use since the late 1930's has come from the Eastern mines. In 1950, for instance, less than 600,000 tons of Illinois-produced coal was used in the coke ovens of the steel industry, whereas over 32 millions tons of Pennsylvania coal and almost 4 million tons of West Virginia coal were used for this purpose.

Other demands may serve to bolster the market for coal in the future. Among these are the conversion of coal into chemicals and plastics. Another possibility is offered by recent experiments with coal-burning gas-turbine locomotives.

#### Industry Seeks Lower Costs and Prices

In the face of falling demand and reduced prices, the coal industry is attempting to find new markets and to reduce costs to a level where coal will again be competitive with other sources of power. In the years from 1939 to 1951, the introduction of new machinery and the adoption of techniques such as strip mining has raised man-hour productivity by about one-third. Illinois producers pioneered the strip-mining technique and over one-third of the State's output is strip-mined.

Illinois mines are also highly mechanized. In 1950, 98.5 percent of Illinois coal was machine cut, as compared with a national average of 92.6 percent. Only one major producing state, Ohio, with 99.3 percent, produced a larger percentage of machine-cut coal. More than 60 percent of Illinois coal is mechanically washed as compared with less than 40 percent of the national production.

Although some immediate relief for the industry in the way of either lower costs or enlarged markets may be possible, any substantial improvement in the situation will probably take place over a longer period of time. New markets will have to be developed and further mechanization and development of tools and techniques will have to take place. These processes require time and it seems unlikely that they can be completed in less than a decade.

**CORRECTION:** In our June issue we erroneously stated that Pepsi-Cola planned to abandon the regional franchise system in favor of a more centralized organization. Pepsi-Cola has no such plans. The firm actually contemplating such action is one headed by Walter Mack, former president of Pepsi-Cola.

# KNOW YOUR STATE

# RECENT ECONOMIC CHANGES

## Business Loans Off

The demand for bank loans by businessmen so far this year has been considerably below 1953. In June, the total outstanding amounted to \$21.9 billion, up seasonally from May but \$700 million below June of last year. Business loans usually decline after December each year as loans made for accumulating Christmas inventories and harvesting crops are repaid. The drop in 1954, however, amounted to 6 percent between December and June compared with about 3 percent in each of the two previous years. The larger-than-seasonal decline has occurred despite the past year's large bank holdings of Commodity Credit Corporation and Reconstruction Finance Corporation certificates of interest.

In response to the lower demand for loans, banks have reduced borrowing costs. In New York City the prime rate—the rate charged the largest borrowers with the best credit ratings—was cut from  $3\frac{1}{4}$  percent to 3 percent in March. Other rates have dropped more sharply. Three-months Treasury bills at the beginning of July were down to .646 percent compared with 2.23 percent in mid-1953. Corporate Aaa bonds (Moody's) were down to 2.90 percent compared with 3.09 percent a year ago, and four-to-six-months commercial paper was at 1.56 percent compared with 2.68 percent in June of last year.

## Exports Continue High

Foreign demand for United States goods was maintained during the first five months of 1954. First quarter exports of nonmilitary goods were about 4 percent lower than in the first quarter of 1953, but increased shipments in April following the shipping strike and higher-than-year-ago shipments in May brought the value of total nonmilitary exports for the first five months to \$5.2 billion, 2 percent above last year. When Mutual Security shipments are included, total exports were down 7 percent in the first five months, as defense shipments declined from \$1.6 billion in the January-May period of last year to under \$1 billion in the same period of 1954.

Imports totaled \$4.3 billion in the first five months, a drop of 9 percent from last year which reflected the lower level of business activity in this country. Because of the lower imports, this country's export balance, excluding military shipments, increased to \$940 million, compared with \$440 million in the first five months of last year.

## Consumer Prices Stable

Consumer prices held steady in June at 115 percent of the 1947-49 average. Food prices were up slightly but the rise was offset by a small decline in transportation costs.

The stability of prices in June is typical of price movements that have occurred over the past three years. Since the middle of 1951 average consumer prices have risen less than 4 percent. Commodity prices have fluctuated within a narrow range whereas rents and services continued a gradual upward movement.

As shown by the chart commodity prices in early 1954 were, on the average, double prewar prices. Although prices of transportation, personal care and reading and recreation are 70 to 90 percent over prewar, other service items have not kept pace with the advance in commodity prices. Noteworthy in this respect are gas and

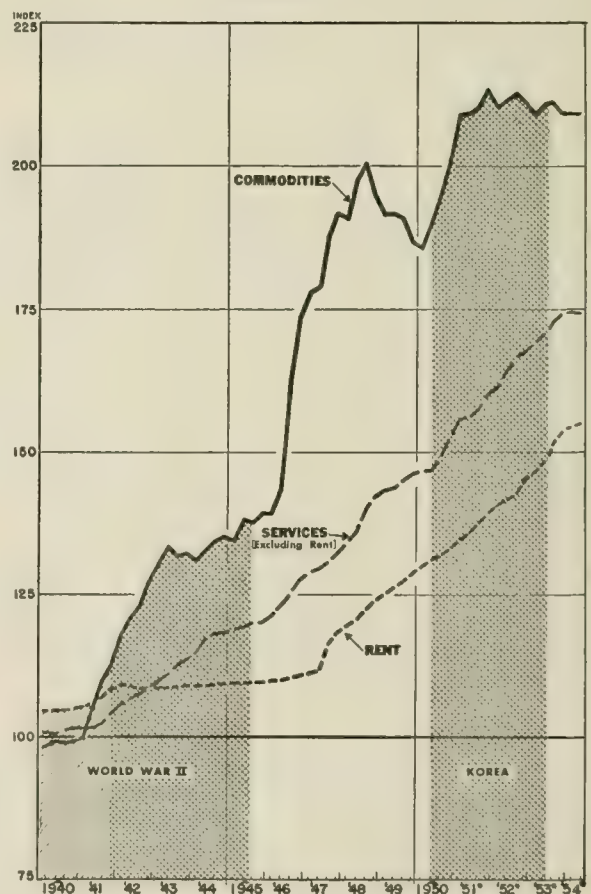
electricity rates. These rates declined during the late thirties and throughout the war period as a large expansion of capacity resulted in reduced unit costs of distribution. However, in the past few years they have risen somewhat, to a point about 2 percent above prewar.

Rents have lagged behind commodity prices even more than services. Rents had been held down until 1947 by Federal controls. In June of 1947 a general increase was authorized and rents rose sharply for the first time since the beginning of the war. Since then, rental rates have paralleled the increase in services as controls were removed in many cities and new housing which has been exempt from control became available at higher rates.

## Manufacturing Hours and Earnings

Although about 1.6 million fewer workers were employed in manufacturing industries in June of this year than last June, those who were working were earning nearly as much as in 1953. Average weekly earnings of manufacturing employees amounted to \$71.68 compared with \$70.74 in May and \$72.04 in June of 1953. The increase from May resulted partly from a 1-cent-an-hour rise, to \$1.81, in average hourly earnings, and partly from a seasonal increase in the length of the workweek. Average working hours recovered to 39.6 hours compared with 39.3 hours a month earlier but were over an hour less than the 40.7 hours worked in June of last year.

CONSUMER PRICES



\* Estimated

Source: Bureau of Labor Statistics.



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Mechanical "Newsboys"

A newspaper vending machine has recently been produced by the United Sound and Signal Company, Incorporated, Columbia, Pennsylvania. At present, five newspapers in four major cities are leasing the mechanical venders and another 150 metal-and-glass "newsboys" will soon be ready for "hire." Called the News Vend, the machine was built for either outdoor or indoor use and holds up to 30 large papers. The new vender can be wall-mounted, placed on a counter, or equipped with standard steel mounts. The coin mechanism provides for almost any sale price and can also be obtained with devices that make change.

The upper half of the front page of the paper shows through a window on the front of the machine. When the money is deposited and a side lever pressed, the paper slides out a full-length slot at the bottom. The manufacturer expects the new product to be placed in apartment house lobbies, hospitals, subway stations, and other places where newsstands have been discontinued.

### Household Formation

The number of households in the United States increased 57 percent from 1930 to 1953, according to the Bureau of the Census. Although families accounted for seven out of eight households last year, family formation is not rising as rapidly as the number of individuals who head their own homes, either living alone or with persons not related to them. In 1953 more than two-and-a-half times as many individuals were living on their own as in 1930, whereas the increase in primary families during the same period was not quite 50 percent.

Almost two out of every five individuals living alone last year were over 65 years old; more than two-fifths were between the ages of 45 and 64, and one out of five was between the ages of 20 and 44. Approximately three-fourths lived in urban areas.

Several factors are responsible for the marked growth in households of only one person. The rapid rise in population, especially among the older age groups, has been partially responsible. But the main factor has been economic in nature. Broader job opportunities, a rise in income levels, and an increase in personal savings and retirement funds have all been important elements.

### New Telephone System for Rural Areas

A new telephone system which utilizes the transistor promises more and better service to rural areas without the addition of more lines, according to Bell Telephone Laboratories in New York. The system makes it possible for a number of conversations to share a pair of telephone wires without interference over distances as short as five miles. Previously this was economical only over much longer distances, according to the company. More than 300 transistors will be used in an experimental model of the new system now being installed on a trial basis at Americus, Georgia. It is hoped that the size of the equipment will be reduced to about one-tenth of that which normally uses vacuum tubes.

### Unemployment Benefit Payments

In most states, unemployment insurance benefits have not kept pace with rising wages. The average weekly payment in the United States in 1953 was \$23.58, or 34.1 percent of average weekly wages in 1952—the latest year for which wage data are available. This compares with average benefit payments of \$10.66, or 40.8 percent of average earnings, in 1939, the first year unemployment benefits were paid in all the states. Only four states—Mississippi, New Jersey, Massachusetts, and Wisconsin—had higher average benefits in relation to wages than they did in 1939, and no state had higher maximum benefits in relation to wages than in 1939.

In 1953, maximum weekly benefits ranged from \$20 to \$33, with only five states paying less than \$25. Various factors influence the level of payments, including state statutory provisions, differences in wage levels, the economic characteristics of the various states, and differences in the composition of the claimant group. Gross weekly earnings are used in the ratio computations and therefore they do not reflect withholding taxes or any other deductions from earnings. If take-home pay were used, 1953 ratios would be somewhat higher. However, as the ratio of maximum benefits to average wages declines, an increasing proportion of insured claimants become eligible for the maximum amount.

The chart shows that maximum benefits as a proportion of average wages during 1953 were highest in Mississippi, North Carolina, and New Hampshire. The amount of the maximum payment in these states was \$30. However, the dollar value of maximum weekly benefits was highest in Wisconsin, where it was \$33; but because wages were also high in that state, benefits amounted to only 46 percent of wages.

**UNEMPLOYMENT BENEFITS**  
Maximum Weekly Benefits, 1953, as Percent of Average Weekly Wages of Covered Workers\*



\*Based on 1952 wage data; maximum excludes dependents' allowances.

Source: U. S. Department of Labor.

# IS DISCOUNT SELLING HERE TO STAY?

MARVIN FRANKEL, Research Assistant Professor

The slackening of economic activity beginning in the latter part of 1952 has subjected some product lines, particularly consumer durables, to intense competitive pressures. Confronted with the need to move more of those classes of goods where inventories are unduly high or markets temporarily saturated, the business community has responded with stepped up promotional efforts. One aspect of this response, an aspect whose significance has grown over the last seven or eight years with each abatement in sales, is the burgeoning of discount houses and, more generally, of discount selling.

## Growth of the Discount House

The discount-type retailing operation is not new. It became familiar to many back in the early thirties. Since World War II, however, its trend has been markedly upward. An estimate of the National Retail Dry Goods Association puts the number of discount houses today at about 10,000. Their total sales volume is not known, but the gross sales of some outlets run into seven figures. Most discount houses are concentrated in the larger cities, but their mail order activities reach out to the rural areas as well.

Methods of operation are not uniform. Some carry small inventories for display purposes while others rely largely on the catalogs of manufacturers and wholesalers. Some channel their sales through organized "buying clubs" of trade union or fraternal groups while others sell to any and everyone. Some are located in inauspicious, upstairs premises and do not advertise openly, whereas others occupy somewhat more conventional quarters and show less restraint in publicizing their products and prices. Some are legitimate wholesalers who also deal directly with consumers and others are retailers who combine a conventional business with sales at a discount to members of clubs and other organized groups. But the common features of this mode of retailing are, in general, cash and carry sales, low inventories and low overhead, and discounts off list prices varying from 15 to 40 percent.

The significance of the discount house is enhanced by its impact on the practices of conventional retailers. Not infrequently the latter find it necessary or expedient to yield to customers who have armed themselves with the discounter's price quotation. The upshot is price reductions on a sales volume far in excess of that of the discount houses alone.

## The Role of Distributors' Brands

To argue that the spread of discount selling presages an upheaval in retailing methods would be premature. The trend thus far is distinct. A considerable fraction of the general public, and a still larger fraction of conventional retailers whose sales have felt the pinch, are aware of it. But, as with most trends, its projection is a hazardous matter. Notwithstanding, there are several reasons, aside from temporary inventory pressures and slack sales, why discount selling may become an increasingly important and permanent feature of our marketing scene.

For one thing, sales of distributors' brands—sometimes called "private" brands—have shown substantial gains in recent years relative to sales of manufacturers' brands. The merchandise categories in which these gains

have occurred are the same categories into which the bulk of the manufacturers' brands fall. The sales of Sears, Roebuck and Company are a pointed reminder of this fact. A glance at a Sears catalog will show how vast is the range of products, durable and nondurable, it distributes to consumers.

Certain of the distributors' brands enjoy cost advantages stemming from volume purchasing, an integration of the wholesaling and retailing operations, and a large and assured final market. They benefit further from the distributor's ability to control his prices absolutely and to vary them at will—something the manufacturer cannot do except through such cumbersome arrangements as consignment selling or fair trade. As a result, distributors' brands are priced competitively. Discounting of high list prices on manufacturers' brands is a natural reaction to this situation.

## Effects of Standardization

Where products are mass produced, are of uniform quality, and are nationally advertised by the manufacturer, their vulnerability to discount selling is exacerbated. These three elements are fundamental to America's economic advance and constitute part of the explanation for its high productivity levels. They are, of course, closely related to one another. Standardization is a first requisite to mass production, and national advertising facilitates distribution of the fruits of mass production.

The standardization feature makes it a matter of indifference to the consumer which retailer he purchases from. He knows that wherever he buys, the product will be the same. National advertising substitutes in large measure for the selling and promotional efforts of retailers. By the time the consumer is ready to purchase, he can and often has acquired, through newspapers, magazines, and the radio, a fairly accurate idea of what he wants.

This "preselling" of products conduces to minimize the role of the retailer as an intermediary between the manufacturer and the final buyer. Aside from the cases where maintenance and repair of an appliance are serious problems or where initial installation is complicated, his services are, to a significant degree, dispensable. His proverbially important functions of informing the customer, of helping him choose from among many items, and of standing behind the item chosen certainly are less necessary today. Where traditional margins are high enough to cover the cost of unessential services, discount selling is to be expected.

In fostering the spread of the principles of self-selection and self-service, standardization and national advertising are abetted by a growing public interest in the activities of consumer research organizations. The publications of these organizations, in reporting to subscribers on their controlled tests of a wide range of consumers' goods, help to supplant exaggerated advertising claims and platitudinous sales talk with facts relevant to judicious and economic choice. The audience such publications have attained thus far represents but a small percentage of the nation's consumers. Manufacturers and retailers, however, are acutely aware of their existence.



## Fair Trade Partly Responsible

Paradoxically, the fair trade laws, under which manufacturers may fix minimum or given prices for their products, share in responsibility for discount selling. There are, in fact, grounds for regarding them as a major encouragement to such selling.

When a manufacturer elects to fix the price of his product under fair trade, he tends automatically to condition the consumer to a given product-price relationship. The consumer may or may not believe the product is worth the price fixed. But he learns from experience, perhaps with the aid of the manufacturer's advertising, that the product sells for the stipulated price in every outlet, whatever its location, and whether it is a supermarket, a small appliance store, or a department store. Because of this product-price conditioning, he will immediately recognize a price cut and will be especially responsive to it.

Indeed, the expressions "price cut" and "price cutting" have meaning only insofar as there exists some customary price against which a price reduction can be measured. A customary price may, of course, develop for a product without the use of fair trade laws. This may result from widespread use by dealers of a common method of markup or from publication by manufacturers of suggested or list prices. Generally, however, such a price will register at least moderate variations over time and place, so that the product-price relationship will not be very strong.

Customary prices may also result from centralized control by a manufacturer selling on an agency or consignment basis or by a distributor selling his own private brand. However, arrangements of this type allow for ready alterations in price and for its geographic variation. Moreover, because the manufacturer or distributor can so readily control price, he need not be unduly concerned about any product-price relationship that might develop. But once such a relationship is established under fair trade, retailers find it tempting to cut prices. They know that consumers will recognize the advantages of those prices and respond to them.

## Discount Houses Here to Stay

In short, in putting a product under price maintenance, manufacturers help to create conditions that make price cutting profitable. Where instead prices are allowed to fluctuate in accord with varying economic pressures, the probability of severe price cutting is correspondingly reduced. Were discount houses deprived of the easy targets set up for them by fair trade, their success doubtless would be more limited.

The partisan of uniform prices and standard markups will find little comfort in the prospects for effective enforcement of the fair trade laws. The prospects are extremely poor. Enforcement is up to the manufacturers, and with few exceptions they are reluctant to take action. In the first place, the policing of retail prices and the institution of legal remedy against violators are expensive. In the second place, manufacturers have no solid interest in enforcing fixed retail prices. Their primary concern is for as large a sales volume as possible at prices satisfactory to themselves. Firms which sell at a discount buy from manufacturers on the same terms as other retailers, and their lower resale prices contribute to a larger sales volume. Effective enforcement, presuming it were feasible, would deprive many manufacturers of some of their best accounts.

The signs, then, are that discount selling is more than a phantom in the marketing picture. It is nurtured and

supported by deeply rooted trends in distributors' branding and in product standardization and national advertising. It receives further encouragement from the fair trade laws which promise to be with us for some time. Return to a sellers' market would diminish the advantage consumers gain in buying through discount channels, and a return to general shortages would eliminate them completely. In the latter event, discount selling would disappear. But these eventualities are not to be counted on except in wartime. A more likely outlook is for a flexible price situation, with sellers competing in a customary manner for the buyer's dollar. It is in this type of situation that discount selling has shown its strength.

Conventional retailers are not without resources to meet the competition. Whether they are large or small, they possess one advantage that assures them of a sizable following: They are willing to sell on credit. A great many consumers, from necessity or otherwise, prefer present to future satisfactions and are willing to pay dearly for this preference.

Smaller retailers can, if they choose, quickly adjust their practices to meet changing conditions. Since they deal with customers on an individual basis, they also can, within limits, vary the terms of sale to suit the case. In this they possess an advantage relative to large outlets like department stores, whose scope of operations requires them to treat customers uniformly. Not least, the small retailer can and frequently does, violate the fair trade minimums with little fear of detection, while large outlets quickly attract attention if they do so. The large outlets, on the other hand, can and do push their own brands, some of which are competitive with national brands even when the latter are discounted.

No quantitative estimate is possible of how far conventional retailers have utilized or will utilize their resources in response to the discount challenge. Whether they can fully meet that challenge without developing some of the real economies the discount sellers have attained is another question.

## The Frontiers of Distribution

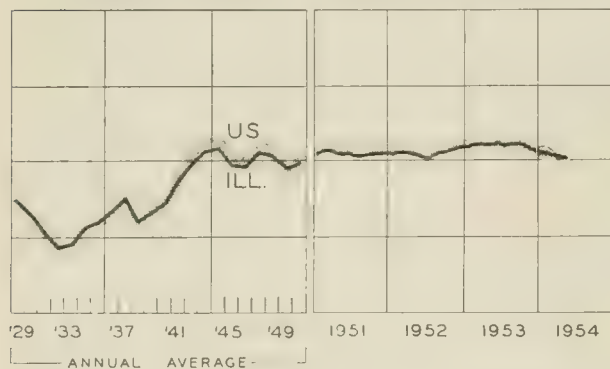
By highlighting the competitive tendencies at work, the recession could easily lead one into comfortable exaggerations about the operation of that magical force called countervailing power. One might, for example, envisage the distributors' brands in pitched battle with the manufacturers' brands. One might further visualize great quantities of standardized products, in a search for buyers, exerting a relentless downward pressure on high fixed prices. Optimism of this kind is hardly warranted. In many product lines the number of manufacturers is so few that uniform prices (or price differentials) and relative price stability are almost inevitable. Inertia and an adherence by retailers to customary markup practices also inhibit price adjustments. Strong retail trade associations, with not inconsiderable success, have sought and continue to seek after pricing policies that ensure high margins. Finally, the severest kind of competition in distribution cannot help appreciably to bring to earth the jacked-up prices of products favored by parity or tariff arrangements.

At the same time there are many elements, of which discount selling is one, that contribute to viability in the marketing picture. Future technological changes and product developments can be expected to work in the same direction. The competitive pattern in distribution does not approximate to any theoretic ideal, but its frontiers are still open.

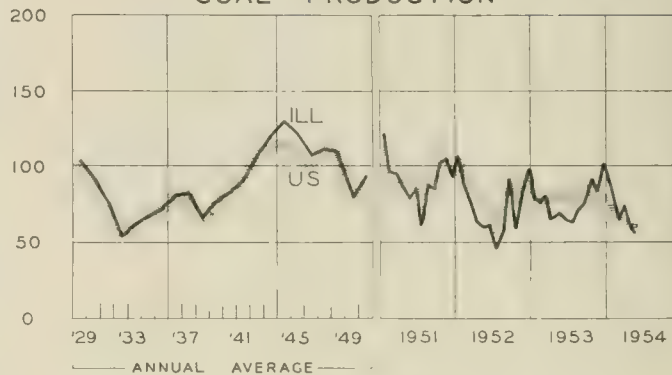
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

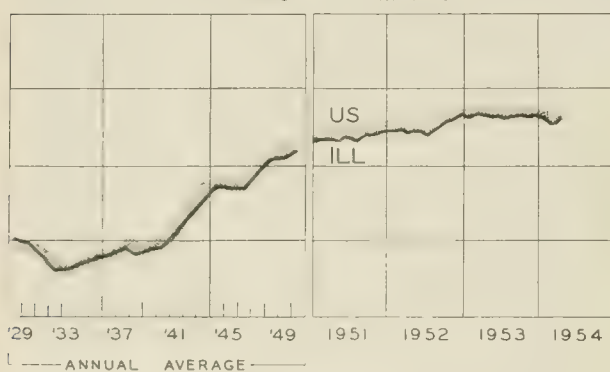
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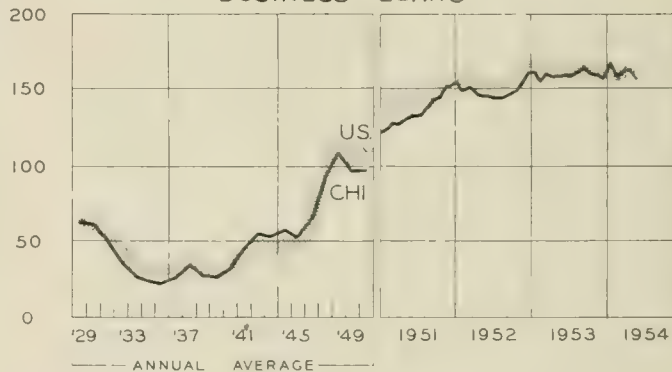
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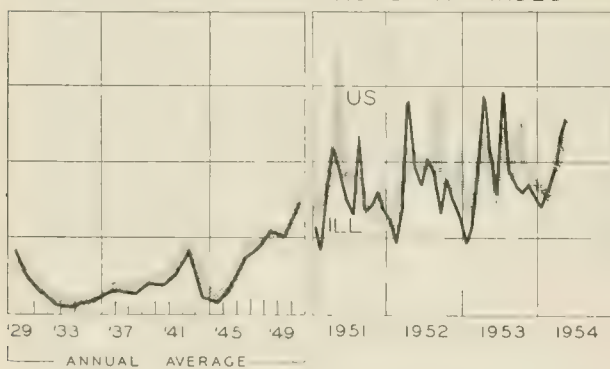
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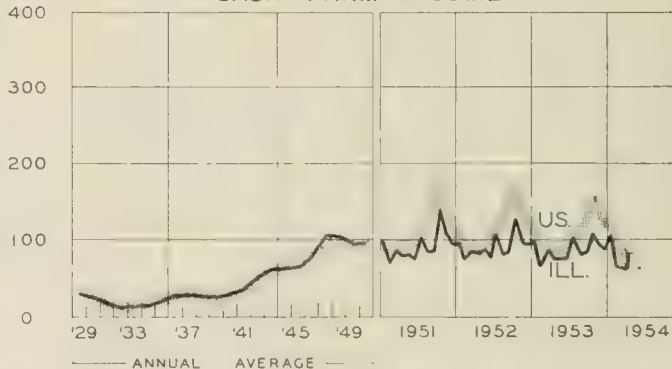
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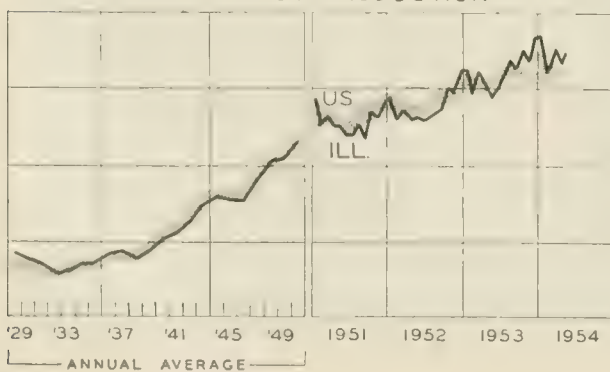
CONSTRUCTION CONTRACTS AWARDED



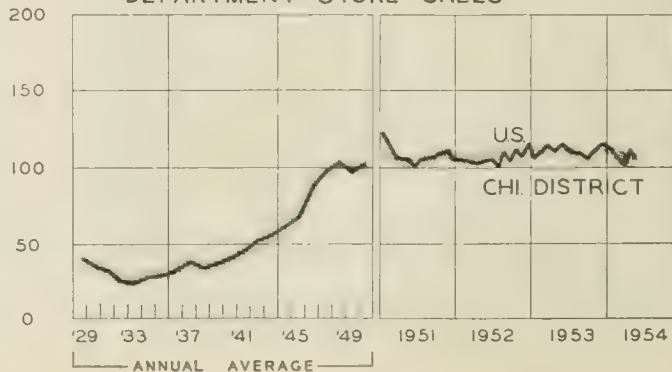
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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## HIGHLIGHTS OF BUSINESS IN AUGUST

Indicators of business activity continued to show uncertainty during August. New claims for unemployment compensation dropped for the seventh consecutive week to the lowest level since early January. The total number of workers claiming compensation remained about twice as high as it was a year ago, however. Exhaustion of benefit rights, improvement in some areas, and a continued slump in other areas were all concealed by the total.

Steel production limped along between 60 and 65 percent of capacity. Auto output was generally lower, with cutbacks for Chrysler and the independents more than offsetting small rises for Ford and General Motors. Part of the decline (especially the Chrysler drop in output) is attributable to model changeovers, which will affect production for the next several months. Electric power output reached a new high late in the month, exceeding year-ago levels by as much as 10 percent. Consumers were spending slightly more money in the department stores; some of the improvement resulted from seasonal school requirements.

### Construction Record

In contrast to other segments of the economy, the construction industry continues to reach new highs. Building activity rose a seasonal 3 percent from July to a record \$3.6 billion. Expanded residential, public utility, and highway building accounted for most of the increase.

Total construction for the first eight months of 1954, at \$23.7 billion, also set a new record, 4 percent over the total for the corresponding period of 1953. A 30 percent advance in commercial building accounted for a large part of the over-all gain. Private expenditures were up 5 percent, in contrast to an increase of only 1 percent in public outlays.

### Capital Outlays Off

Business firms are expected to spend \$26.7 billion on new capital in 1954, 6 percent less than last year's record high. Lower expenditures are anticipated for most major industries. Railroad outlays are expected to be 35 percent below 1953 as a result of reduced earnings and virtual completion of large-scale modernization programs.

Manufacturing firms in the aggregate intend to spend 8 percent less this year than last. Most of this decline is attributed to reduced outlays by smaller firms, as planned expenditures by companies with assets over \$100 million are about the same as last year. Outlays by primary metal concerns are expected to be off a third. Textile, chemical,

and rubber companies and gas utilities plan to spend 15 percent less than in 1953. Petroleum concerns anticipate higher outlays this year, but the largest advance, 30 percent, was reported by the motor vehicle and other transportation group.

### New Legislation

In the closing days of its second session, the 83rd Congress passed several bills of importance to business. The first general tax overhaul in many years cut individual and corporate taxes in a number of ways. Among the many changes made are provisions for different means of computing depreciation and for more liberal depletion and mine exploration deductions for businesses. For individuals, rules governing support of dependents are liberalized and deductions for medical expenses, child care, and charitable contributions are increased.

Approximately 10 million additional people, many of them self-employed, are brought into the social security system under a new law. Contributions to the social security fund will now be paid on \$4,200 of income instead of \$3,600, and benefits will be raised by at least \$5 monthly. Retired workers may earn \$1,200 instead of \$900 without losing benefits. Congress also extended the unemployment insurance program to include companies which employ 4 or more workers for at least 20 weeks a year.

A housing bill provides for lower down payments and longer pay-off periods for houses mortgaged with government insurance. The foreign aid program was continued, and a total of \$2.7 billion was appropriated for the current fiscal year.

### Manufacturers' Sales Steady

Sales by manufacturers remained unchanged from June to July after seasonal adjustment. Shipments for most durable goods industries were stable; the chief exception was in transportation equipment where a decline in sales of motor vehicles was offset by increased sales of other categories. Most nondurable goods industries showed only small changes.

Inventories, after adjustments for seasonal factors, were off about \$300 million, the same amount as in June. The decline was concentrated in durable goods, especially in transportation equipment. New orders were also down, about 2 percent, as increases in orders for electrical machinery and transportation equipment were more than offset by decreases in other major groups.

# ILLINOIS BUSINESS REVIEW

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## A Slight Case of Mergers

The postwar years have been characterized by all sorts of outbreaks. In some years there have been outbreaks of polio; in other years, of war scares; and in still other years, of visions of flying saucers. The year 1954 appears to be characterized by a different sort of outbreak—an outbreak of business mergers. Not since the late twenties do so many mergers seem to have been reported as in the current year. Steel companies, auto manufacturers, chemical companies, even banks—everyone, it seems, is getting into the act.

Not surprisingly, these mergers have given rise to considerable anxiety regarding their possible effects on the economy. Are they likely to stimulate technological development or hinder it? How will they affect competition? What effect will they have on prices and costs? In short, are they good for the economy or bad? To answer such questions it is necessary to ask why these mergers are occurring at this particular time and to examine the conditions underlying them.

### Why Now?

A period of trial tends to weed out the weak from the strong. The recent recession is no exception. Some firms weathered the recession and the accompanying intensification of competition in remarkably good shape. Productivity was increased, sales efficiency was raised, expenses were pared, and net income was maintained near previous highs. In many instances, thanks to the expiration of the excess profits tax, profits after taxes moved up sharply. The finances of these companies were strong to begin with, and in some cases were improved even further by these developments.

At the same time, these companies were faced with the prospects of intensified competition on the one hand, and of a growing long-range market for their products on the other hand. It was therefore only a natural reaction on their part to seek ways of using their finances to improve their competitive position, either by providing for greater capacity or by further improving operating efficiency.

Streamlining operations by construction of new facilities or by modernization of old facilities is the usual means of accomplishing such objectives. To do so in the recent past, however, often meant incurring very high costs, for despite the recession the construction boom kept rolling along. There was generally no surplus of

construction labor or materials: one could not contract for a new plant at a discount as was possible in the case of automobiles and appliances.

At the same time, good facilities of other firms were often available at a price far below comparable current construction costs. In the main, these were facilities of smaller firms that had lost heavily during the recession. Weaknesses that were of little consequence when the only problem was one of production seriously impaired operations as business declined. Often poorly off financially, and facing the possibility of serious further losses, many such firms were more than willing to consider integration into a larger and much stronger firm.

This is not to say, however, that the only mergers to take place have been between the weak and the strong, or that improvement of competitive position was the only objective. Diversification is another major objective of mergers. Heavy dependence on one product is not the best way of weathering a recession. The greater vulnerability to heavy losses of firms whose income depends largely on one or two products becomes most apparent during a recession, as many have found out to their regret during the past year. Accordingly, many of these companies turned to means of diversifying operations, which is generally much more easily and economically accomplished by acquiring an established firm than by developing a new brand or product from the ground up. The recent acquisition of electronics and industrial machinery firms by Westinghouse Air Brake Company was largely motivated by such considerations.

### Economic Effects

This review of the principal factors behind the mergers does not of itself answer the question of their social desirability, but it does provide useful insights. Clearly, any merger between two weak firms that helps keep them on their feet is in the best interests of the economy in the sense of promoting competition. By combining resources these firms are often able not only to reduce unit costs and keep their heads above water but even to compete more aggressively for markets than both had been able to do before.

This is especially true for industries that are dominated by a few large firms. The recent mergers in the auto industry exemplify such a situation. In the absence of such mergers, it is problematical whether some of these firms might have survived much longer. With the mergers, they are in a position to undertake projects which neither could undertake alone—such as a wider and more coordinated distributorship system, and more frequent model changeovers made possible by spreading retooling costs over a larger number of units.

But what about mergers between strong and weak firms or between two strong firms? Are they also generally in the best interests of the economy? The answer depends on the circumstances surrounding the merger. The nature of the product, the position of the firms in the industry, the type of merger and its purpose are among the factors which must be considered in such an evaluation. A merger of two firms that make a product very similar to other products may be of little consequence to the general welfare. Even if such a merger secured a monopoly position for these firms with respect to the product, there is little they could do to exploit that position, assuming they wanted to, because of the ever-present danger that consumers might shift their prefer-

(Continued on page 6)



### TRACK-TYPE TRACTORS

This year marks the fiftieth anniversary of the first commercially successful track-type or crawler tractor. Wheel-type tractors, although suitable for many purposes, tend to sink into soft earth and their usefulness is seriously impaired in such areas. The need for a prime mover of large ground contact area and high maneuverability led Benjamin Holt, a West Coast manufacturer of steam-powered wheel-type tractors, to remove the wheels from one of his standard models and substitute a pair of rough wooden tracks. Holt's innovation was tested on November 24, 1904, and became the forerunner of almost 350,000 crawlers now in use in this country.

By 1906, steam had been replaced by gasoline as the source of power for Holt's tractors. Demand grew to such an extent that in 1909 Holt established a new manufacturing plant in Peoria, Illinois. After Holt's merger in 1925 with his chief competitor, the C. L. Best Gas Traction Company, his firm became the Caterpillar Tractor Company with headquarters in Peoria.

In 1928 Allis-Chalmers established their first line of crawler tractors when they purchased the Monarch Tractor Corporation of Springfield, Illinois. During the same year another Illinois firm, International Harvester, made its first crawler by modifying a wheeled tractor by the addition of a tracklaying device. Today, International Harvester ranks second only to Caterpillar in the number of track-type tractors manufactured.

#### Industry Shows Rapid Growth

Although the track-type tractor has been commercially produced for fifty years, the greatest growth in demand and production has taken place in the last thirty years. In the period of 1922 to 1952, annual production of crawler tractors jumped from a mere 4,187 units to 48,651, a twelvefold increase.

Two factors have been responsible for this amazing growth. The first is the growing agricultural demand for the track-type tractor and the second has been the new uses found for it in other industries.

When track-type tractors were first produced, their main use was in agriculture. In the early years, they could be employed economically only on the largest farms and on relatively flat terrain. Constant improvements have resulted in track-type tractors that can be used efficiently on much smaller farms and on hilly terrain.

The crawlers that were first used in other industries such as logging or mining were merely modified farm tractors. As time passed, more and more uses were found within these industries for the track-type tractor. In addition, the nation's growing population and the consequent demand for new homes, schools, and factories gave impetus to the industrial use of the tractor. Statistics for the post-World War II years show that well over half of the production of track-type tractors has been for nonagricultural industries. Some of the big producers now have separate divisions making farm and nonfarm tractors.

The export trade has been another important source of demand for track-type tractors, particularly since

World War II. In 1952, for instance, almost 30 percent of domestic production was exported.

#### Illinois the Leading Producer

Illinois has proven to be an ideal location for the manufacture of this type of tractor. The State offers not only convenient sources of materials such as coal and steel, but is also centrally located with regard to both industrial and agricultural demand.

Today, three of the nation's five producers of track-type tractors are located in Illinois, and these three firms produce about 75 percent of the world's crawler tractors.

Caterpillar, the world's largest producer of track-type tractors, offers five sizes of Diesel crawlers and employs 26,000 people, 21,000 of whom work at the Peoria plant. International Harvester has over 15,000 workers producing crawler tractors. Two-thirds of these workers are in Illinois, with about 5,000 at the Melrose Park plant and another 5,000 at the Chicago plant. Allis-Chalmers has about 4,000 workers engaged in the production of track-type tractors, all of whom are located at the Springfield, Illinois, plant.

#### Postwar Expansion

The pent-up demand for tractors which was the result of World War II and postwar disturbances seems to be pretty well satisfied. Illinois manufacturers feel, however, that the natural growth of the economy and replacement demand will be enough to justify expansions of sizable proportions. Another important, but less certain, source of demand is the export market, where the industry feels that high levels of sales can be maintained if the necessary dollars can be acquired by overseas customers.

In line with this optimistic outlook, each of the Illinois firms manufacturing track-type tractors has sought to expand its facilities. International Harvester in recent years has attempted to get into the industrial earth-moving business with a full line of equipment. It purchased the Frank G. Hough Company of Libertyville, Illinois, and an arrangement was made with Bucyrus-Erie Company by which International Harvester will take over production, distribution, and servicing of Bucyrus-Erie industrial tractor equipment.

During the last three years, Allis-Chalmers has purchased the LaPlant-Choate Company and the Buda Engine Works of Harvey, Illinois. Acquisition of these plants will enable Allis-Chalmers to expand its product line and to manufacture its own Diesel engines. Caterpillar's expansion since World War II includes enlargement of its main plant at Peoria and construction of new plants at Peoria and at Decatur, Illinois, as well as at York, Pennsylvania.

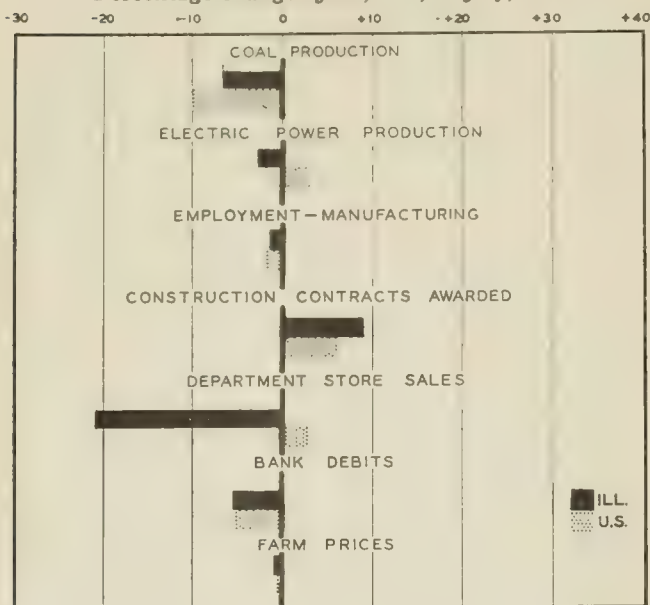
In addition to this plant expansion, millions have been spent on research. The research has already resulted in tractors incomparably better than those produced a few years ago, and promises to lead to still better tractors and still more uses for the product.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes June, 1954, to July, 1954



## ILLINOIS BUSINESS INDEXES

Item	July 1954 (1947-49 = 100)	Percentage Change from	
		June 1954	July 1953
Electric power <sup>1</sup> .....	178.8	-2.6	+11.2
Coal production <sup>2</sup> .....	53.6	-6.6	-15.7
Employment—manufacturing <sup>3</sup> ..	100.3	-1.5	-9.6
Payrolls—manufacturing.....	n.a.	.....	.....
Dept. store sales in Chicago <sup>4</sup> ...	104.0 <sup>a</sup>	-1.9	-1.0
Consumer prices in Chicago <sup>5</sup> ...	118.0	+0.6	+2.0
Construction contracts awarded <sup>6</sup>	239.7	+9.1	-17.6
Bank debts <sup>7</sup> .....	143.3	-5.3	-1.8
Farm prices <sup>8</sup> .....	98.1	-0.8	-8.4
Life insurance sales (ordinary) <sup>9</sup> ..	153.4	-6.2	-0.9
Petroleum production <sup>10</sup> .....	104.7	+1.4	+15.0

<sup>1</sup> Federal Power Commission; <sup>2</sup> Illinois Department of Mines; <sup>3</sup> Illinois Department of Labor; <sup>4</sup> Federal Reserve Bank, 7th District; <sup>5</sup> U. S. Bureau of Labor Statistics; <sup>6</sup> F. W. Dodge Corporation; <sup>7</sup> Federal Reserve Board; <sup>8</sup> Illinois Crop Reports; <sup>9</sup> Life Insurance Agency Management Association; <sup>10</sup> Illinois Geological Survey.  
<sup>a</sup> Seasonally adjusted. n.a. Not available.

## UNITED STATES MONTHLY INDEXES

Item	July 1954	Percentage Change from	
		June 1954	July 1953
	Annual rate in billion \$		
Personal income <sup>1</sup> .....	286.5 <sup>a</sup>	0.0	- 0.6
Manufacturing <sup>1</sup> .....			
Sales.....	290.6 <sup>a, b</sup>	- 0.2	- 8.2
Inventories.....	44.2 <sup>b</sup>	- 0.7	- 4.9
New construction activity <sup>1</sup>			
Private residential.....	14.8	+ 4.6	+ 9.9
Private nonresidential.....	13.7	+ 4.3	+ 4.4
Total public.....	13.6	+ 5.0	+ 2.6
Foreign trade <sup>1</sup>			
Merchandise exports.....	17.7 <sup>c</sup>	+ 5.4	+ 6.4
Merchandise imports.....	11.4 <sup>c</sup>	+14.3	+ 1.5
Excess of exports.....	6.3 <sup>c</sup>	- 7.6	+16.7
Consumer credit outstanding <sup>2</sup>			
Total credit.....	27.8 <sup>b</sup>	+ 0.2	+ 0.9
Installment credit.....	21.2 <sup>b</sup>	+ 0.6	+ 1.2
Business loans <sup>2</sup> .....	21.5 <sup>b</sup>	- 1.6	- 4.9
Cash farm income <sup>3</sup> .....	27.6	+ 7.6	- 5.0
	Indexes (1947-49 =100)		
Industrial production <sup>2</sup>			
Combined index.....	124 <sup>a</sup>	0.0	- 9.5
Durable manufactures.....	136 <sup>a</sup>	+ 0.7	-13.4
Nondurable manufactures.....	116 <sup>a</sup>	0.0	- 4.1
Minerals.....	111 <sup>a</sup>	- 1.8	- 7.5
Manufacturing employment <sup>4</sup>			
Production workers.....	100 <sup>a</sup>	- 1.4	-12.0
Factory worker earnings <sup>4</sup>			
Average hours worked.....	99	- 0.5	- 2.2
Average hourly earnings.....	135	- 0.6	+ 1.7
Average weekly earnings.....	134	- 1.1	- 0.6
Construction contracts awarded <sup>5</sup>	240	+ 6.0	+ 2.4
Department store sales <sup>2</sup> .....	115 <sup>a</sup>	+ 2.7	+ 1.8
Consumers' price index <sup>4</sup> .....	115	+ 0.1	+ 0.4
Wholesale prices <sup>4</sup>			
All commodities.....	110	+ 0.4	- 0.5
Farm products.....	96	+ 1.5	- 1.7
Foods.....	106	+ 1.3	+ 0.9
Other.....	114	+ 0.1	- 0.4
Farm prices <sup>3</sup>			
Received by farmers.....	92	- 0.4	- 5.0
Paid by farmers.....	112	- 0.7	+ 0.4
Parity ratio.....	88 <sup>d</sup>	0.0	- 5.4

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for June, 1954; comparisons relate to May, 1954, and June, 1953.  
<sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1954					1953
	Aug. 28	Aug. 21	Aug. 14	Aug. 7	July 31	Aug. 29
Production:						
Bituminous coal (daily avg.).....	1,235	1,257	1,293	1,233	1,250	1,623
Electric power by utilities.....	9,227	9,207	8,996	9,059	9,139	8,540
Motor vehicles (Wards).....	111.2	117.0	116.2	120.9	123.5	144.9
Petroleum (daily avg.).....	6,048	6,062	6,062	6,057	6,158	6,532
Steel.....	94.3	91.7	95.1	95.1	95.4	131.1
Freight carloadings.....	677	679	685	668	684	818
Department store sales.....	102	100	97	92	87	101
Commodity prices, wholesale:						
All commodities.....	110.0	110.3	110.2	110.1	109.7	110.6
Other than farm products and foods.....	114.4	114.3	114.3	114.4	114.2	114.9
22 commodities.....	91.4	91.2	90.8	90.7	90.9	89.9
Finance:						
Business loans.....	20,773	20,759	20,829	20,770	21,524	22,891
Failures, industrial and commercial.....	184	246	233	207	195	182

Source: Survey of Current Business, Weekly Supplements.



# RECENT ECONOMIC CHANGES

## Installment Credit Up

Consumers, who in the aggregate seemed reluctant to extend their long-term indebtedness earlier this year, have stepped up their installment buying in recent months. Installment credit outstanding declined more than seasonally in the first quarter and moved up less than usual in April and May. The June advance was about par for the month. In July, however, installment credit increased by \$124 million to \$21.2 billion, as compared with a \$50-\$60 million increment that government economists consider normal for the month. Practically all of the advance reflected long-term contracts for purchases of automobiles.

Total consumer credit in July increased less than installment credit, by only \$44 million. Liquidation of non-installment indebtedness, largely composed of single payment loans and charge accounts, accounted for the smaller increase in the total. At \$27.8 billion, total consumer credit was slightly above the same month a year ago, though a billion dollars below last December's peak.

## Retail Sales Slightly Lower

Retail sales in July were moderately below this June, as well as July of last year, according to preliminary estimates. Substantial increases in sales of grocery stores, eating and drinking places, and gasoline service stations were offset by sharp declines in apparel and automotive sales and more moderate declines in sales by other major types of retail stores during the month.

Retail sales during the first seven months of this year were less than 2 percent below the corresponding period of 1953. As shown by the accompanying chart, a substantial gain from last year in gasoline service station sales was offset by lower lumber and building materials suppliers' and automobile and parts dealers' sales. How-

ever, sales of the majority of the various store groups were relatively unchanged from the first seven months of 1953.

Accompanying the somewhat lower level of retail sales this year has been a reduction in inventory holdings. The total book value of retailers' stocks amounted to \$22.4 billion at the end of July, \$200 million below the June total, after allowance for seasonal influences. This was \$300 million below July of last year.

## Gross National Product Stabilizes

Following three quarters of decline, the nation's output of goods and services increased slightly in the second quarter to \$356 billion. This was \$14 billion below the 1953 second quarter peak. The decline from last year was largely confined to reductions in Federal government expenditures and a reversal from substantial inventory accumulation in the second quarter of 1953 to liquidation in subsequent quarters.

The relative stability of total output between the first and second quarters of 1954 was due largely to the cancellation of opposing movements in major sectors of the economy rather than to inherent stability. Government purchases of goods and services declined \$3.6 billion in the second quarter, mostly as a result of further reductions in national security outlays.

### GROSS NATIONAL PRODUCT OR EXPENDITURE

(Seasonally adjusted, billions of dollars at annual rates)

	2nd Qtr. 1954	1st Qtr. 1954	2nd Qtr. 1953
Gross national product.....	356.0	355.8	369.9
Personal consumption.....	233.1	230.5	230.8
Durable goods.....	28.8	28.0	30.3
Nondurable goods.....	120.0	118.8	119.6
Services.....	84.3	83.6	80.9
Domestic investment.....	45.6	44.5	55.9
New construction.....	27.0	26.0	25.9
Producers' durable equipment	22.4	22.7	24.6
Change in business inventories	-3.8	-4.2	5.4
Nonfarm inventories only..	-4.0	-4.2	6.2
Foreign investment.....	-1.0	-1.1	-3.3
Government purchases.....	78.3	81.9	86.6

### INCOME AND SAVING

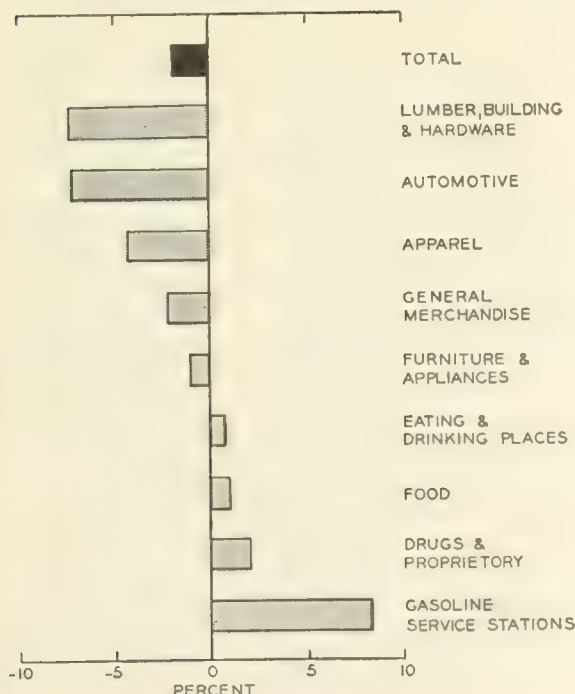
National income.....	n.a.	298.9	308.2
Personal income.....	285.7	285.1	286.4
Disposable personal income.....	252.9	252.3	250.4
Personal saving.....	19.7	21.8	19.6

Offsetting this decline was a \$2.6 billion advance in personal consumption expenditures and a \$1.1 billion rise in private investment. The rise in private investment reflected continued boom-level construction activity. Residential building reached the highest rate since the post-war peak in the second half of 1950. Inventory liquidation slowed from an annual rate of \$4.2 billion in the first quarter to \$3.8 billion in the second. Outlays for producers' durable equipment were off somewhat as declines in expenditures by the manufacturing and transportation industries offset further increases in public utility and commercial firms' outlays.

## Employment Rising

The number of jobholders increased in August for the seventh consecutive month. At 62.3 million employment was 128,000 higher than in July. Unemployment declined slightly to 3.2 million but still represented better than

RETAIL SALES  
Percent change, Jan.-July, 1953-54.



Source: U. S. Department of Commerce.

twice the number of people looking for jobs in August of last year. Both the rise in employment and decline in unemployment were normal for this time of year, but the changes were considerably more moderate than August changes in other postwar years.

Partly because of the shift of many workers from farm to nonfarm jobs, agricultural employment was down by 558,000 from July and nonfarm employment rose by 687,000. Census data in thousands of workers are as follows:

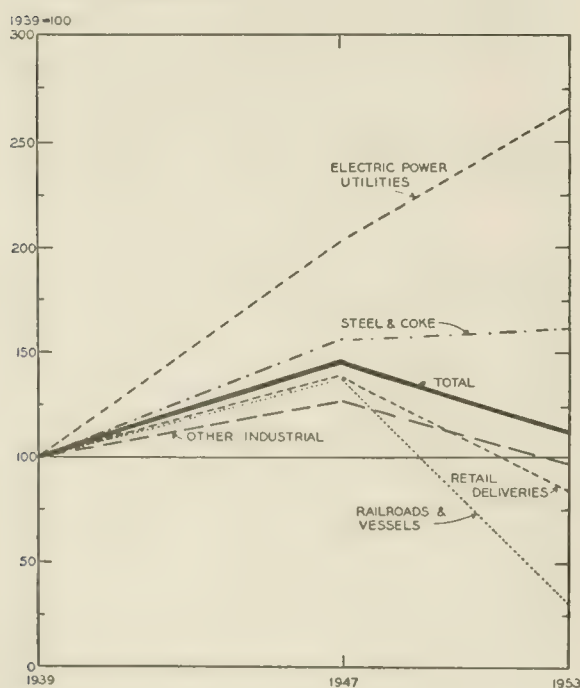
	August 1954	July 1954	August 1953
Civilian labor force.....	65,521	65,494	64,648
Employment.....	62,276	62,148	63,408
Agricultural.....	6,928	7,486	7,274
Nonagricultural.....	55,348	54,662	56,134
Unemployment.....	3,245	3,346	1,240

### Continued Decline for Bituminous Coal

Bituminous coal has lost considerable ground to competing fuels in the postwar period. Between 1947 and 1953 the Federal Reserve Board's mineral fuels production index moved up 14 percent. Production of fuel oil increased nearly 30 percent and sales of natural gas more than doubled. Consumption of bituminous coal, however, dropped 23 percent during this period.

The effect of shifts to competing fuels on demand for bituminous coal is illustrated by the accompanying chart. Demand for coal by railroads has declined most sharply, as accelerated investment in Diesels after World War II led to the virtual extinction of steam locomotives on many roads. Retail deliveries are also off sharply as a result of the conversion of numerous coal furnaces to oil or gas. The bulk of the new homes built since the war have been equipped with gas or oil burners. Consumption of coal by the iron and steel industry was only slightly higher in 1953 than in 1947, whereas steel production advanced 31 percent over this period, indicating in part use of higher grades of iron ore and coal and in part increased use of gas in open-hearth furnaces.

**BITUMINOUS COAL CONSUMPTION**



Source: U. S. Department of the Interior.

Electric power utilities represent the only major consuming group in which coal use has kept relative pace with expansion of the consumers' output. For this reason and because of the losses in other markets, the electric utilities are rapidly becoming the coal industry's best customers. In 1939 coal consumption by utilities amounted to only 11 percent of total bituminous coal consumption. In 1953 electric power utilities used more than a fourth of the total consumed.

### Foreign Security Holdings

Foreign holdings of common and preferred stocks of United States corporations totaled \$3.7 billion at the end of 1953, about \$650 million above 1946. The increase in the dollar value of foreign holdings occurred as a result of the general rise in American stock prices and despite net sales of United States securities during this period made to secure dollar funds for reconstruction.

At the end of 1953 the largest holdings of United States securities were registered for Switzerland with \$900 million and the United Kingdom with about \$750 million. However, many of these securities were probably owned by residents of other countries using Swiss and United Kingdom financial services.

### State Income Payments

Total income payments to individuals rose by almost 6 percent in 1953 to \$271 billion. On a per capita basis, income payments increased 4 percent to \$1,709. Per capita income payments were up most in Indiana (10 percent) and South Dakota (11 percent). The largest declines occurred in Idaho and Kansas, both down 5 percent. Incomes per head were highest in Connecticut at \$2,194 and lowest in Mississippi at \$834.

Nationally, income expanded in all major sectors of the economy except agricultural. Farm income declined in all but five states. For the country as a whole, agricultural income was 12 percent lower than in 1952 whereas nonfarm income advanced 7 percent. Manufacturing payrolls were up 11 percent, trade and service income increased 6 percent, and construction payrolls were 4 percent higher than in 1952.

### A Slight Case of Mergers

(Continued from page 2)

ences to one of the substitutes. If, however, the product is a more or less indispensable one, a merger leading to a monopoly position is not likely to be in the best interests of the general public.

By the same token, mergers between two strong firms, though generally viewed with suspicion, are not necessarily undesirable. Such is the case, for example, when a merger of two relatively small firms permits them to undertake technological improvements only feasible for the larger firms in the industry.

All this is not to imply that every merger that has taken place this year is socially desirable. Rather it is to point out that to condemn or praise mergers indiscriminately is poor policy, and that the current rash of mergers does not necessarily indicate growing monopolistic tendencies in the economy. Past experience shows that in some industries mergers have contributed to the growth of monopoly and in others have tended to do the very opposite. Careful study of each case is the only means of determining whether a particular merger is likely to do more harm than good.

RF



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### New Oil Brake

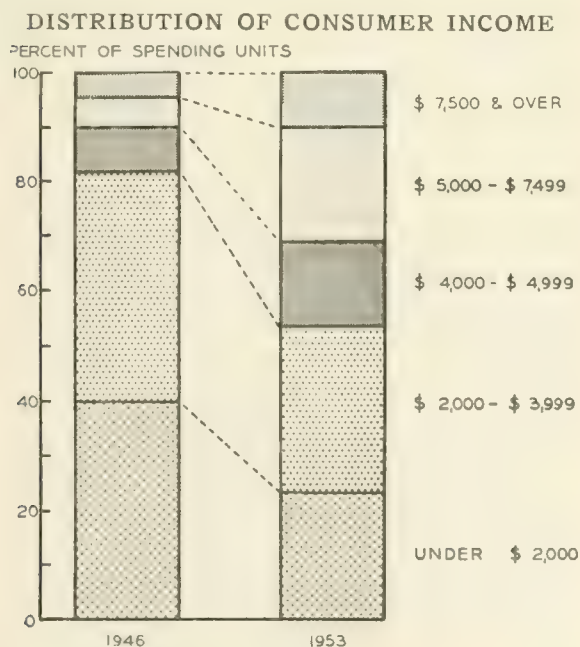
A new braking device to control the downhill speed of heavy-duty, off-highway trucks has been developed by the Allison Division of General Motors Corporation, Indianapolis, Indiana. Known as the Torqmatic, the new mechanism is like a fluid coupling rather than an ordinary friction brake. When the operator opens a control valve, oil enters the mechanism and the paddles of a rotor churn the oil, placing a drag on the converter-transmission drive shaft. That makes it harder for the wheels to turn and the vehicle is slowed. The oil also absorbs any heat generated by the braking action.

The amount of oil admitted to the brake is in proportion to the braking needed. Thus the operator has the truck under full control at all times, using the conventional friction brakes only to come to a complete stop. The unit is now in commercial production and can be installed on trucks already equipped with Allison's Torqmatic drives.

### Consumer Income in 1953

The before-tax income position of consumers improved slightly in 1953, according to the Federal Reserve Board's 1954 Survey of Consumer Finances. With money incomes up somewhat and prices relatively steady, real income increased. More than two-fifths of all spending units reported gains over 1952, whereas approximately one-fifth reported lower incomes. By occupations the advances occurred mainly among professional and semiprofessional, clerical and sales, and managerial workers.

As shown by the accompanying chart, there has been a pronounced upward shift in incomes since 1946. In that year, 40 percent of consumer spending units had incomes of less than \$2,000 and 4 percent had incomes of \$7,500 or more. In 1953 these percentages were 23 and 10 respectively. The median income increased from \$2,300 in 1946 to \$3,780 in 1953.



Source: Federal Reserve Board.

Ownership of liquid assets (U. S. government bonds, checking and savings accounts, postal savings, and shares in savings and loan associations and credit unions) also rose last year. The proportion of total spending units holding such assets rose from 71 percent in 1952 to 74 percent last year, a point only slightly below the high of 76 percent at the end of World War II. Increases appear to have been concentrated in the \$200 to \$999 range. Very small holdings and large holdings showed no gains.

### Electronic and Photographic Printer

A completely new method of printing which combines the principles of photography with electronics has been developed by the Standard Register Company, Dayton, Ohio. Named the "Photronic Reproducer," the new product prints instantaneously without physical contact with a copy paper which needs no special coating or treatment either before or after the reproduction.

The new printer consists of two chambers separated by a plate of optical glass which has a special coating on one side. An image is projected into the glass on the uncoated side and marginally punched paper is passed in front of the coated side of the plate. In the chamber on the other side of the copy paper is a fine mist and an electrostatic grid to furnish a high voltage charge. The mist, which is a dye, is propelled by electrostatic force to the surface of the paper in the form of the image projected from the back. The coating on the glass, functioning as a photoelectric cell, converts light energy into electrical energy and causes the dye to be deposited on the paper in proportion to the amount of light projected from the back.

### Indicator Fuse

A fuse which lights up when it blows out and which can be used six times without replacement is being produced by Sightmaster Corporation, New Rochelle, New York. Since the bad fuse glows, there is no fumbling in the dark to find it. Also, the new product needs only to be twisted in its socket to the next of six positions to become as good as new, thus eliminating the possibility of getting a shock while replacing the fuse. Retailing for 79 cents, the new item is being made with ratings of 15, 20, 25, and 30 amperes.

### Advertising Aid for the Small Retailer

A workable advertising program for the small retail businessman who is responsible for his own advertising has recently been published by the Business Management Service of the University of Illinois as Bulletin Number 851. Entitled *Newspaper Advertising for the Small Retailer*, by Isabelle M. Zimmerly, the handbook reviews the objectives of advertising and presents a six-point plan of achievement. The author offers suggestions on how to set up a sensible advertising budget, choose and use varied media wisely, make the advertising program consistent, emphasize fast-moving merchandise and store services, get simplicity in copy and layout, and coordinate sales effort. The booklet also contains 10 illustrations of retail newspaper advertisements and a list of suggested readings. It is available from the Business Management Service, University of Illinois, Urbana, Illinois, for 50 cents.

# TRENDS IN LIFE INSURANCE

EMERSON CAMMACK, Instructor in Economics

Marine insurance literally came to America with the first settlers in New England, and fire insurance furnished by British underwriters was a sizable business in the colonies by the beginning of the eighteenth century. In contrast, the life insurance business in this country was a relative late-comer. Benjamin Franklin commented that it was "a strange anomaly that men should be careful to insure their houses, their ships, their merchandise, and yet neglect to insure their lives, surely the most important of all to their families, and more subject to loss." Yet until the nineteenth century was well under way, sales of life insurance consisted for the most part of the issuance of short-term policies to those about to undertake a voyage or other perilous venture.

The present state of development of life insurance would amaze — and delight — the thrifty Franklin. Today life insurance is big business. Total assets of United States life insurance companies exceed \$78 billion, and the Metropolitan Life Insurance Company with over \$12 billion has become the world's largest corporation in terms of assets.

## Recent Growth

The past fifteen years have witnessed one of the greatest periods of growth of life insurance in the industry's history. As is shown by Chart 1, life insurance protection has increased steadily beyond the amount of disposable income, but paradoxically, the cost of this insurance as a percentage of disposable income has not increased materially. In the past ten years total premium payments have increased 98 percent whereas the aggregate face amount of insurance has increased more than 120 percent. The explanation is the increasing sale of the

more economical group life insurance and a greater use of the cheaper — but temporary — term insurance.

In recent years, group insurance, which is issued without medical examination on a group of persons under a master policy, has been the most rapidly increasing form of life insurance. From 1946 to 1953 sales of group insurance more than tripled, while sales of ordinary life increased about 67 percent, and industrial life (insurance sold in amounts of less than \$500 and premiums paid weekly or monthly) increased only 50 percent.

## Who Owns Life Insurance?

In 1953, nearly four out of every five families in the United States owned some life insurance. Insurance holdings, as would be expected, rise with income level. Only 68 percent of families whose incomes were between \$1,000 and \$2,000 a year held insurance, whereas 92 percent of families earning over \$7,500 per year held life insurance. The latter also spent more money on insurance per family. The average premium payments made by the two groups were \$75 and \$440, respectively.

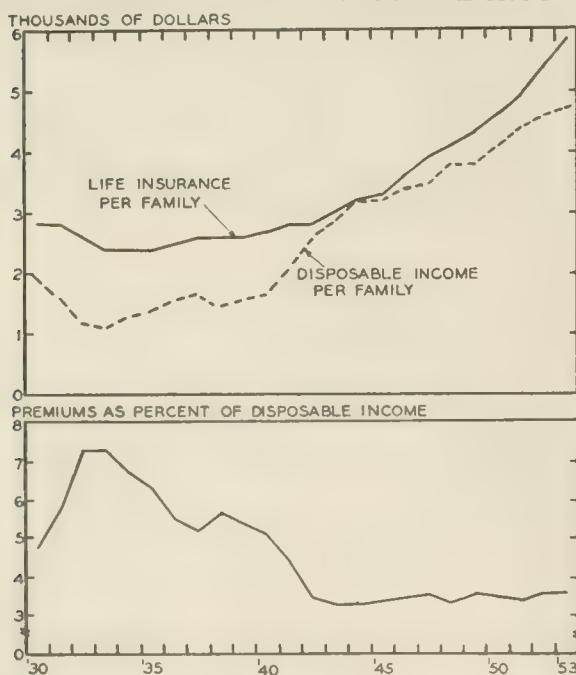
Life insurance holdings vary also among families in other respects. Holdings of life insurance were greater in cities than in rural areas. Eighty-four percent of families in metropolitan areas owned life insurance, but only 66 percent of families living in the country were insured.

As would be expected, the extent of family dependency has an effect on the holding of life insurance. About 90 percent of families with two dependent children held life insurance, as compared with 75 percent of families with no children, 83 percent of families with three children, and 71 percent of families with four or more children. The rather surprising tendency for life insurance holdings to decrease in families with three or more children may be explained by the pressure of other family expenses as the number of children increases beyond two.

In 1952, the last year for which figures are available, life insurance owning families in the United States spent an average of \$160 on premiums, or about 4 percent of their income after taxes. Twenty-seven percent spent 5 percent or more of their disposable income for life insurance, and 7 percent put 10 percent or more of income into life insurance premiums.

The great bulk of insurance is on the life of a man — the breadwinner in the typical family situation. This is not surprising since a basic principle of insurance buying — applicable to fire, marine, and casualty insurance as well as to life insurance — is to insure only against that which can cause loss to the insured. In recent years, however, there has been an increasing tendency for insurance on lives of children to increase at a faster rate than insurance on adults. From an economic point of view, this is undesirable because it provides no additional security. Except in the rare instance of a Shirley Temple or a Jimmy Boyd, children under 15 are not breadwinners. In objective economic terms, their parents would be money ahead should the child die — and the earlier the death occurs, the greater the monetary savings. There is no need to insure against contingencies which, if they should occur, result in monetary savings rather than expenses. That premium money could be more wisely spent to buy increased protection on the head of the household.

LIFE INSURANCE AND DISPOSABLE INCOME



Sources: Institute of Life Insurance, *Spectator Year Book*, and U. S. Department of Commerce.



## Investments of Life Insurance Companies

The income of all life insurance companies in 1953 was over \$14 billion. Of this total, premiums represented \$10.8 billion and investment and other income accounted for \$3.4 billion. The investment of new funds, together with the reinvestment of maturing investments, gives insurance companies the problem of finding suitable investment outlets for over a billion dollars every month. With such large sums to invest, life insurance companies have become a major force in the investment market. Only banks rival them as investing institutions.

The basic principle of life insurance company investment management holds that since the companies' obligations, the policies, are long-term obligations fixed in terms of dollars, investments should be concentrated in long-term, fixed-dollar investments. Within this frame of reference, the life insurance company faces the same problem as the bank manager—that of securing as large a yield as possible consistent with a high degree of safety.

Three noticeable trends have been exhibited by life insurance company investments in recent years (Chart 2): the great decrease in holdings of United States government bonds, the great increase in holdings of securities of business and industry, and the slowly increasing holdings of mortgages. During the war, with other sources of investment dried up, insurance companies had little choice but to buy government bonds. In 1945, almost half of life insurance assets were so invested. In that same year, investment in mortgages and securities of business and industry reached its lowest amount with only 14.8 percent and 24.7 percent of assets in those respective forms.

Since 1945, however, these trends have been reversed. Almost \$5 billion was invested by life insurance companies last year in securities of business and industry. About 93 percent of these holdings was in bonds, and of the small investment in stocks, the greater part was in preferred stocks. Life insurance companies have been criticized for their refusal to invest in high-grade common stocks, and it is pointed out that in 1910 common stock in the auto industry would have been a better investment than bonds of the buggy industry. However, the principle of fixed-dollar investment is so ingrained in life investment managers that these arguments have made little headway, despite the success of those foreign life insurance com-

panies which have invested more heavily in common stocks.

Real estate is one of the most publicized types of insurance company investment. This accounted, however, for only 2.6 percent of assets in 1953, and was not substantially greater, percentagewise, than in past years. Perhaps the most widely known of these investments is in rental housing projects, but these represent little more than one-fifth of real estate holdings. A much greater amount is invested in commercial real estate. In recent years, many business corporations have sold factories, office buildings, and other real property to insurance companies. The business firm then rents its former property from the life insurance company. In this manner the firm's capital is released for use elsewhere, the life insurance company finds an outlet for some of its investment funds, and everyone benefits—with the possible exception of the Bureau of Internal Revenue.

The presence of life insurance companies in the capital market has proved a boon to business and industry. Not only is there a ready and even a willing source of funds, but most investments made by life insurance companies in these securities can be made on a direct placement basis. The securities are sold directly by the business firm to the insurance company. The requirement that new securities be registered with the Securities and Exchange Commission does not apply in this case. Also, no underwriting fee need be paid an investment bank, so the net cost to the business firm is less than for capital acquired through regular market channels.

In shifting from a portfolio largely invested in government bonds to one in which business securities predominate, life insurance companies are increasing the average yield on their investments, in exchange for a greater risk. These investments are more vulnerable to economic fluctuations today than they were ten years ago. This is a calculated risk, but the past record of life insurance companies as investment managers gives one confidence that the policyholders' funds are in capable hands. The average rate of earnings on the invested funds last year rose to 3.36 percent from a low of 2.88 percent in 1947.

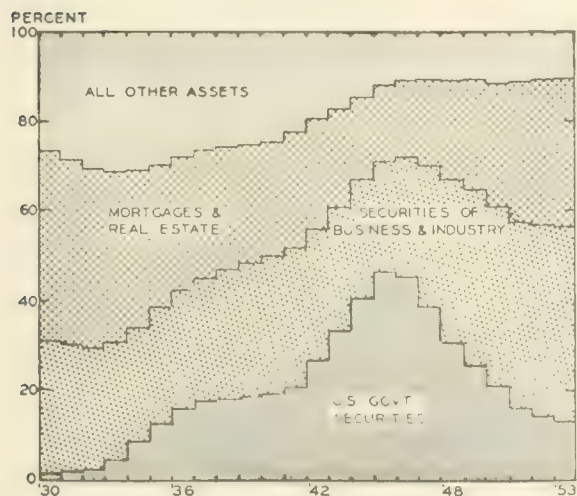
## Outlook

The outlook for life insurance in the foreseeable future is bright. There is nothing to indicate that the persistent upward growth of sales will be checked. With population increases, the volume of insurance sales will grow, and there is every indication that per capita holdings of life insurance will continue to rise. With the average family's holdings of life insurance only 25 percent greater than one year's disposable income, it cannot be claimed that the family's needs for life insurance have been fully satisfied.

The spectacular increase in group insurance aided by demands of organized labor (its volume has doubled since 1948) is likely to continue. The spreading use of group insurance as exemplified by the policy of banks to insure borrowers, will add impetus to this growth.

In their investment portfolios, additional declines in life insurance company holdings of government bonds are likely. Further increases in holdings of securities of business and industry and of mortgages may be expected. With the expected rise in the number of family units in the late 1950's, holdings of mortgages may be expected to increase faster than holdings of securities. Such changes might well lead to still higher earnings rates in the future accompanied by possible reductions in costs of life insurance.

DISTRIBUTION OF ASSETS OF U. S. LIFE COMPANIES



Sources: *Spectator Year Book* and Institute of Life Insurance.

# LOCAL ILLINOIS DEVELOPMENTS

Business activity in Illinois was generally lower in July, with seasonal factors playing a large part in many of the declines. Steel output in the Chicago District was off sharply to 68.0 percent of capacity, the lowest point since the steel strike of mid-1952. The operating rate for the first six months of the year was 77.1 percent of capacity. Electric power production was off somewhat less, 2.6 percent.

Retail activity also declined—department store sales dropped 1.9 percent from June to July. Construction contracts awarded and petroleum production were the only important indexes to show advances over the earlier month.

## Weekly Earnings Up

The average weekly earnings of Illinois manufacturing workers rose in June for the second month after declining earlier in the year. The improvement was due to an increase in working hours, from 39.4 hours in April to 40.0 hours in June, rather than to any advance in hourly wages.

At \$76.20, average weekly wages were below the 1953 peak of \$77.04. Nevertheless, manufacturing workers were relatively better off than they were when the Korean War started. Since June, 1950, average weekly earnings have increased approximately 25 percent whereas the consumer price index for Chicago has risen 15 percent (see chart).

## Crop Outlook for 1954

Heat and dry weather in July reduced substantially the estimated corn crop for this year, according to the Illinois Cooperative Crop Reporting Service. The new estimate, issued on August 1, was 20 percent below the July 1 expectations as a result of heavy damage to the crop in the southern half of the State. The expected 1954

yield, 400 million bushels, is also a fifth lower than the 1953 crop and about 10 percent less than the 10-year average. Anticipated per-acre yield was cut from 57 bushels to 45 bushels.

Soybean yields were also affected by the heat, but an increase in acreage is expected to offset the decline in yields. Earlier crops such as wheat, oats, and hay were affected less seriously.

## Construction Awards Up in July

Divergent movements characterized construction contract awards in Illinois during July. Total awards in the State rose 9 percent from June to \$127.3 million as non-residential building increased 61 percent and contracts let for public works and utilities advanced 15 percent. Residential awards were off 17 percent.

On a year-to-year basis, awards declined 18 percent with the value of contracts for nonresidential construction dropping nearly one-half. The chief factor in this decline was a substantial cut in awards for commercial building and a smaller but still sizable decrease in contracts for the construction of manufacturing facilities. In contrast residential awards were up one-third and public works and utilities contracts by nearly half.

For the first seven months of 1954, construction contract awards amounted to \$768.6 million, 8 percent above the corresponding period of 1953. The increase was due almost entirely to the continued strength of residential construction, awards for which were up 31 percent from last year. Nonresidential awards rose only 3 percent, and public works and utilities building contracts dropped 27 percent.

## Income Payments in 1953

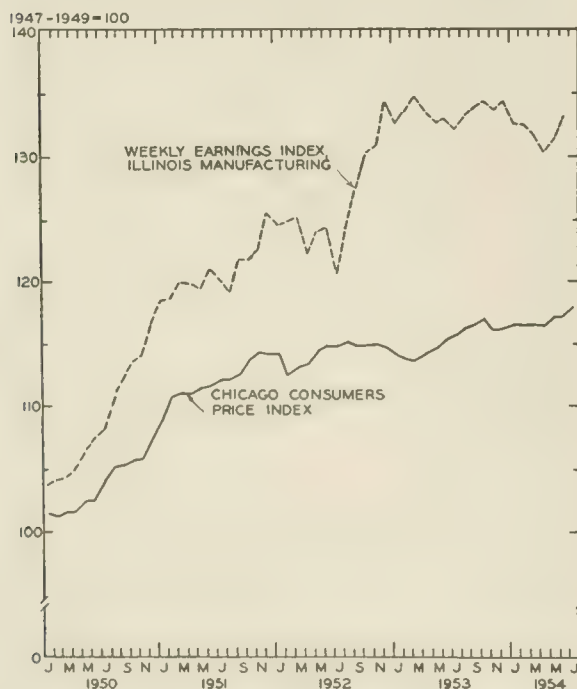
Aggregate income payments to individuals in Illinois in 1953 rose 6 percent from 1952 to \$18.8 billion. Totals were higher only in New York, California, and Pennsylvania. Income advanced in most categories with increases ranging from 2 percent for government income payments to 11 percent for manufacturing payrolls. Two other major sources of income dropped substantially—mining payrolls were off 3 percent and agricultural income dropped 13 percent.

Per capita income amounted to \$2,088, 5 percent above 1952 and 22 percent above the national average. Among the chief types of income—wages and salaries, proprietors' income, property income, and other—increases ranged from 4.7 percent (property income) to 7.3 percent (wages and salaries). Only proprietors' income, off 1.5 percent, declined.

## Unemployment Claims Drop

Total claims for unemployment compensation declined throughout the month of August, according to the Bureau of Employment Security. In the five weeks ended August 28 the number of insured unemployed dropped 13 percent to 131,630. A sharp fall in initial claims filed also indicated improvement in the employment situation. Declines were attributed to fewer layoffs in fabricated metals and electrical equipment caused by lack of orders, a decline in vacation layoffs, and seasonal hiring in food processing. Gains were spotty, however: Chicago, Aurora, and Joliet reported sizable cuts in insured unemployment from July to August, but further small increases occurred in Peoria, Rockford, and the Davenport-Rock Island-Moline area.

## EARNINGS AND PRICES IN ILLINOIS



Sources: Bureau of Labor Statistics and Illinois Department of Labor.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

July, 1954

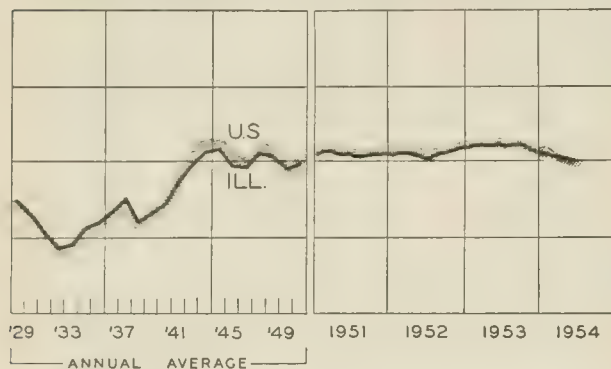
		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b>		<b>\$25,390<sup>a</sup></b>	<b>921,134<sup>a</sup></b>	<b>\$545,421<sup>a</sup></b>		<b>\$12,524<sup>a</sup></b>	<b>\$11,689<sup>a</sup></b>
Percentage Change from	June, 1954	n.a.	+2.4	+3.5	-21	-5.3	-11.8
	July, 1953	-7.7	-1.0	-4.4	0	-1.8	+6.0
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b>		<b>\$19,137</b>	<b>707,744</b>	<b>\$401,500</b>		<b>\$11,446</b>	<b>\$10,170</b>
Percentage Change from	June, 1954	+4.0	+3.0	+4.2	-21	-5.2	-12.5
	July, 1953	-6.8	-2.6	-4.1	0	-1.7	+5.8
<b>Aurora</b>		<b>\$ 516</b>	n.a.	<b>\$ 7,841</b>		<b>\$ 48</b>	<b>\$ 103</b>
Percentage Change from	June, 1954	+20.6		+8.6	-27	-7.9	+10.1
	July, 1953	+105.6		-2.8	-2	+2.2	+26.4
<b>Elgin</b>		<b>\$ 453</b>	n.a.	<b>\$ 5,639</b>		<b>\$ 32</b>	<b>\$ 77</b>
Percentage Change from	June, 1954	+243.2		+1.6	-25	-2.4	-16.8
	July, 1953	+39.0		-1.4	+4	+17.7	+12.8
<b>Joliet</b>		<b>\$ 335</b>	n.a.	<b>\$10,977</b>		<b>\$ 64</b>	<b>\$ 87</b>
Percentage Change from	June, 1954	-10.9		+1.0	-22	-0.2	-0.3
	July, 1953	-52.5		-14.0	-1	+0.8	+39.5
<b>Kankakee</b>		<b>\$ 139</b>	n.a.	<b>\$ 5,340</b>		n.a.	<b>\$ 32</b>
Percentage Change from	June, 1954	+17.8		+0.7	n.a.		0.0
	July, 1953	-27.6		-0.9			+12.0
<b>Rock Island-Moline</b>		n.a.	<b>19,687</b>	<b>\$ 9,809</b>		<b>\$ 83<sup>b</sup></b>	<b>\$ 132</b>
Percentage Change from	June, 1954		-1.6	-0.7	n.a.	-4.3	-9.1
	July, 1953		+2.1	-7.0		-1.3	+8.5
<b>Rockford</b>		<b>\$ 936</b>	<b>26,097</b>	<b>\$16,087</b>		<b>\$ 131</b>	<b>\$ 150</b>
Percentage Change from	June, 1954	-0.7	-9.9	+0.7	-27 <sup>c</sup>	-8.8	-12.7
	July, 1953	-40.0	-6.1	-6.7	-7 <sup>c</sup>	-1.5	-0.1
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b>		<b>\$ 277</b>	<b>6,723</b>	<b>\$ 5,487</b>		<b>\$ 61</b>	<b>\$ 78</b>
Percentage Change from	June, 1954	-9.2	+3.5	+2.6	n.a.	+1.7	-19.0
	July, 1953	+39.2	+7.6	-18.3		+2.4	+17.0
<b>Champaign-Urbana</b>		<b>\$ 217</b>	<b>9,309</b>	<b>\$ 7,360</b>		<b>\$ 54</b>	<b>\$ 68</b>
Percentage Change from	June, 1954	-32.2	+3.5	+2.2	n.a.	+1.4	-13.2
	July, 1953	-78.7	+21.6	-0.2		+1.7	-8.5
<b>Danville</b>		<b>\$ 188</b>	<b>9,038</b>	<b>\$ 5,772</b>		<b>\$ 47</b>	<b>\$ 54</b>
Percentage Change from	June, 1954	-2.6	-1.8	+0.7	-16	+4.9	-3.1
	July, 1953	-15.7	+11.1	-7.2	-4	+7.6	-1.4
<b>Decatur</b>		<b>\$1,261</b>	<b>24,398</b>	<b>\$11,178</b>		<b>\$ 86</b>	<b>\$ 99</b>
Percentage Change from	June, 1954	n.a.	+5.0	+2.6	-14 <sup>c</sup>	-10.6	-9.9
	July, 1953	+21.0	+9.7	+7.1	-3 <sup>c</sup>	-7.1	+2.6
<b>Galesburg</b>		<b>\$ 218</b>	<b>7,222</b>	<b>\$ 4,269</b>		n.a.	<b>\$ 33</b>
Percentage Change from	June, 1954	+61.5	+4.1	+0.8	n.a.		-2.4
	July, 1953	+73.0	+18.2	1.1			-6.8
<b>Peoria</b>		<b>\$ 337</b>	<b>42,275<sup>e</sup></b>	<b>\$17,181</b>		<b>\$ 176</b>	<b>\$ 211</b>
Percentage Change from	June, 1954	-27.8	-4.8	+4.4	-24 <sup>c</sup>	-10.5	-5.9
	July, 1953	+10.5	+2.8	-5.0	-4 <sup>c</sup>	-14.3	+8.8
<b>Quincy</b>		<b>\$ 290</b>	<b>8,037</b>	<b>\$ 4,863</b>		<b>\$ 36</b>	<b>\$ 59</b>
Percentage Change from	June, 1954	+25.0	+4.3	+0.3	-18	-8.0	+2.0
	July, 1953	+43.6	+21.9	-4.3	+3	+5.6	-8.7
<b>Springfield</b>		<b>\$ 310</b>	<b>29,462<sup>e</sup></b>	<b>\$13,199</b>		<b>\$ 97</b>	<b>\$ 194</b>
Percentage Change from	June, 1954	+5.1	+6.3	+1.0	n.a.	-5.5	-7.7
	July, 1953	+0.6	+10.1	-7.6		-1.9	-0.7
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b>		<b>\$ 255</b>	<b>12,880</b>	<b>\$ 9,355</b>		<b>\$ 128</b>	<b>\$ 79</b>
Percentage Change from	June, 1954	+51.8	+8.1	-2.6	n.a.	-5.2	+27.8
	July, 1953	-29.6	-7.7	-4.1		+0.2	+30.7
<b>Alton</b>		<b>\$ 219</b>	<b>11,941</b>	<b>\$ 5,002</b>		<b>\$ 36</b>	<b>\$ 29</b>
Percentage Change from	June, 1954	+44.1	+6.9	+2.4	n.a.	-10.6	-2.3
	July, 1953	+16.5	2.2	-1.9		-1.5	+4.4
<b>Belleville</b>		<b>\$ 202</b>	<b>6,321</b>	<b>\$ 4,563</b>		n.a.	<b>\$ 34</b>
Percentage Change from	June, 1954	-78.5	+6.9	+1.3	n.a.		-17.4
	July, 1953	+676.9	+4.7	-1.9			-3.3

<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for June, 1954, the most recent available. Comparisons relate to May, 1954, and June, 1953. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

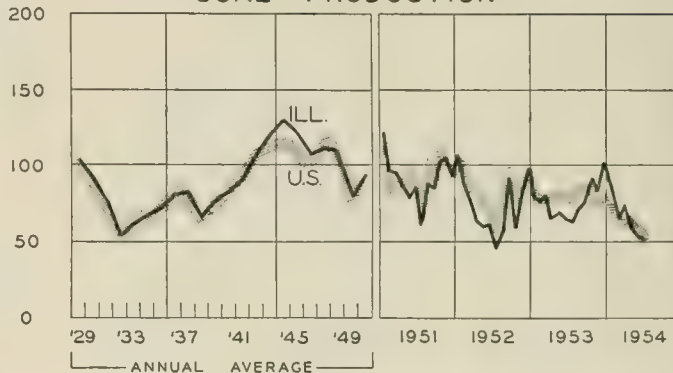
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

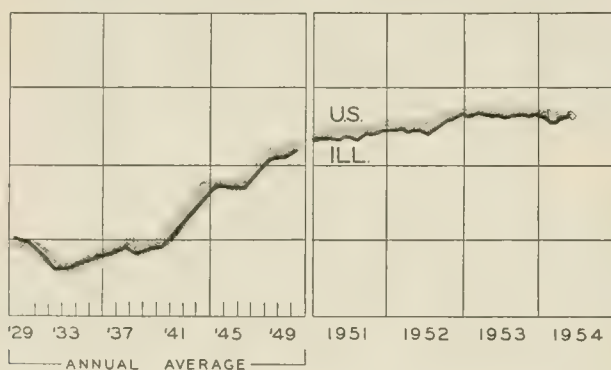
## EMPLOYMENT - MANUFACTURING



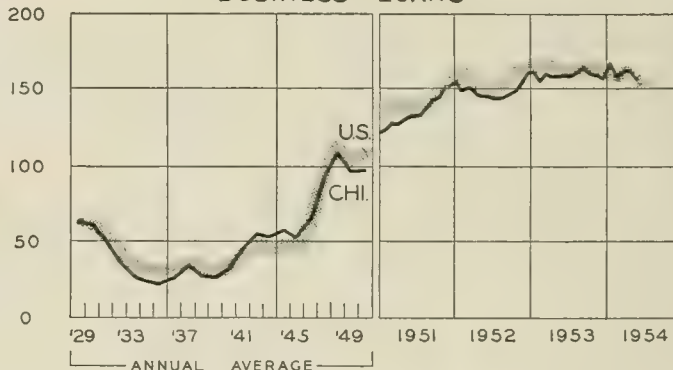
## COAL PRODUCTION



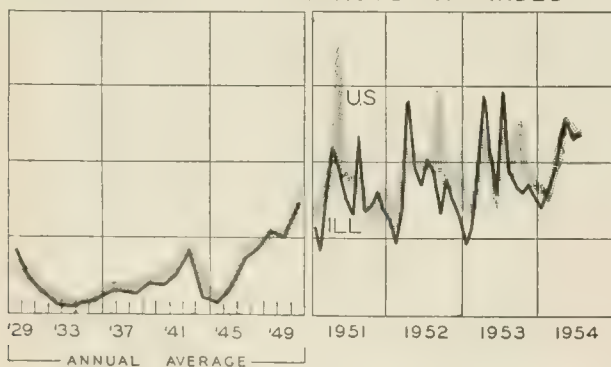
## AVG. WKLY. EARNINGS — MANUFACTURING



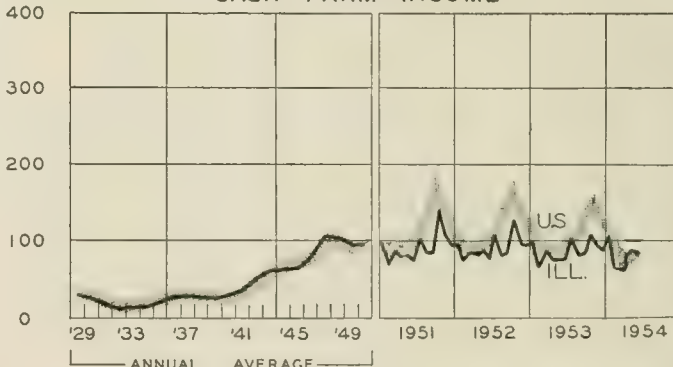
## BUSINESS LOANS



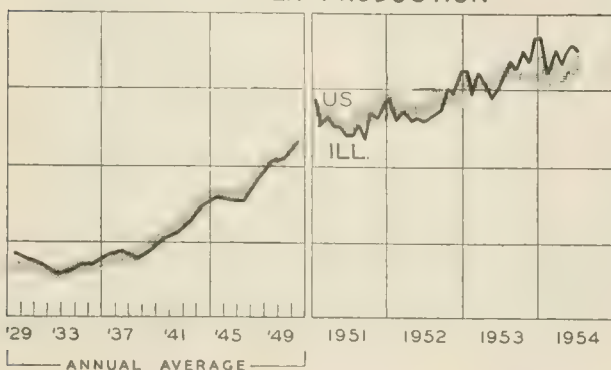
## CONSTRUCTION CONTRACTS AWARDED



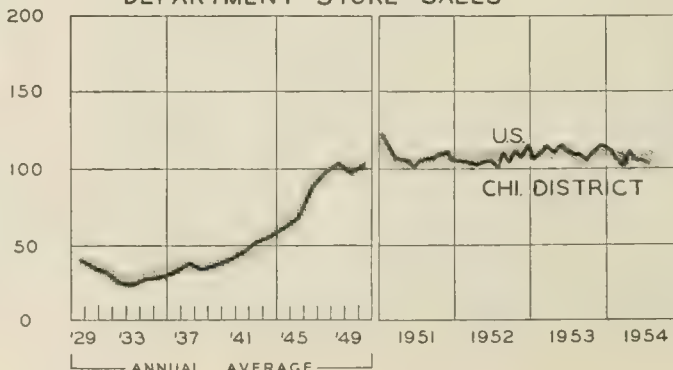
## CASH FARM INCOME



## ELECTRIC POWER PRODUCTION



## DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

## A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

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NUMBER 10

### HIGHLIGHTS OF BUSINESS IN SEPTEMBER

Mixed business conditions continued to prevail in September, but over-all industrial output gained. The Federal Reserve Board's index reached 126 percent of the 1947-49 average, 2 index points above the August figure.

Steel production crept up from 63 percent of capacity to 70 percent, but auto production weakened still further, falling to 51,000 units at mid-month as seven producers closed their plants for model changeovers. This was the lowest level since the curtailment of production during the steel strike in 1952.

Electric power output fluctuated around 9 billion kilowatt-hours per week, but remained about 8 percent above 1953 levels. New claims for unemployment compensation were likewise marked by ups and downs, rising or falling by as much as 10 percent from one week to the next. Over-all employment, as reported by the Bureau of the Census, was down 133,000. Unemployment also declined somewhat, dropping to 3.1 million. The back-to-school movement was an important factor in both cases.

#### Building Boom Continues

August's record \$3.6 billion of new construction was repeated in September to make the third quarter total the highest on record. Private residential building, at \$1.3 billion, rose slightly from August and was near an all-time peak. Private industrial construction, which has declined almost steadily since early 1953, steadied at \$160 million. Commercial building, valued at more than \$200 million for the third consecutive month, continued to break records. Public construction expanded slightly on the strength of new highs reached in state and local building activity.

Total construction put in place during the third quarter was valued at more than \$10.7 billion, 7 percent over the corresponding months of 1953. After allowances are made for seasonal factors, third quarter activity reached an annual rate of \$37.5 billion, compared with an annual rate of \$36.3 billion in the first half of this year, and actual expenditures of \$35.3 billion last year.

#### Higher Federal Deficit Expected

A revised Federal budget for fiscal 1955 made public in September by the Administration anticipates a deficit for the year of \$4.7 billion instead of the \$2.9 billion originally foreseen last January. The new estimates indicate that excise tax receipts will be \$1.1 billion less than

expected in January, and that corporate taxes will be \$1.5 billion lower. Anticipated revenues have been cut by \$3.4 billion to \$59.3 billion.

National security expenditures were estimated at \$3.0 billion less than they were last January. However, non-defense expenditures have been raised by \$1.4 billion, with agricultural programs, public housing, road building, ship construction, school aid, and veterans' benefits all scheduled to receive larger sums.

The Treasury has taken advantage of the temporary increase in the national debt limit to obtain needed funds. In September it borrowed \$4 billion on short-term 1½ percent notes maturing May 15, 1957; this sum is expected to cover about two-thirds of the government's additional cash requirements for the remainder of this calendar year.

#### Exports Off

United States merchandise exports dropped fairly sharply in July and again in August, mainly as a result of lower military aid shipments although seasonal factors also played a part. Sizable declines in textile fibers and manufactures, nonmetallic minerals, and machinery and vehicles in July accounted for much of the decrease. In contrast, imports fell substantially in July but recovered in August to recoup a small part of the loss.

For the first eight months of 1954, total exports including military goods were valued at \$10.2 billion, off 5 percent from the corresponding period of 1953. Non-military shipments, however, continued to run ahead of the 1953 level. Imports, totaling \$6.9 billion, were down 7 percent.

#### Retail Sales Gain

Retail sales rose in September, advancing \$132 million from the August level, to a total of somewhat more than \$14 billion. This was only a little less than the September, 1953, sales figure. Major durable and nondurable goods groups showed only minor changes from August and from September, 1953. If these data were adjusted for seasonal variations, however, the picture might be somewhat different, as seasonally adjusted department store sales were off 3.6 percent from August to September.

For the first three quarters of 1954 total retail sales are estimated at \$123.3 billion. This is 1.5 percent less than sales in the corresponding period of 1953.

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## Up or Down?

Ascertaining the current status of the economy is about as bewildering a task as one could possibly hope to avoid. The fact that many business indicators appear to be registering conflicting trends is reason in itself for bewilderment. But when, in addition, both political parties resort to the *same* indicators to prove that in the one case business is doing fine and in the other it is in dire straits, one can hardly resist the urge to throw up one's hands in disgust and turn to simpler questions such as the theory of relativity or the construction of inter-planetary aircraft.

Yet, an examination of available data does reveal clear tendencies in the economy at the present time. Such an examination combined with an evaluation of the possible effects of the coming elections, throws considerable light on the probable course of business in the near future, and therefore seems well worth undertaking.

### The Present Picture

Pessimistic speeches notwithstanding, there are indications that the low point of the 1953-54 recession has already been reached and that a gradual upswing is under way. The liquidation of inventories, which has been a depressing influence on business activity since the fourth quarter of last year, appears to have about run its course and businessmen generally are now in the process of replenishing stocks. No letup in construction expenditures has yet occurred, as building activity continues to set new records. Retail sales are doing very well, according to the latest reports. Business has been picking up at the manufacturers' level also, with increased activity in such diverse industries as steel, textiles, and machine tools. Unemployment in September registered a slight further decline and prices both at the consumer and wholesale levels showed little change, on the average.

Some of these movements are attributable to the usual fall pickup in activity. It is also true that the upswing has not been universal (few ever are), and various industries, such as agricultural machinery, remain depressed. In general, however, these sectors are no more depressed than they were some months ago, so that with other areas gaining momentum the over-all movement appears to be upward at the present time.

It also seems probable that business activity will continue to move upward moderately during the remainder of this year and possibly well into next year. Inventory

replenishment should be a major factor in the recovery, for once begun the process cumulates from one stage to the next. Increased stocks on retailers' shelves usually lead to increased holdings by distributors to supply the retailers, in turn stimulating greater supplies at the manufacturing level to keep the distributor supplied, and so on.

This inventory accumulation, continued high levels of retail sales, and government spending at Federal as well as at state and local levels — which in the aggregate will be maintained at about present levels, if not raised — will probably be prime forces acting to bolster activity in the next few months. On the other side of the picture, capital expenditures on new plant and equipment seem likely to decline from present high levels, and it is debatable whether construction activity will remain at present record heights much longer despite the stimulus provided by the recent housing legislation. Such declines as do occur are likely to be small, at least in the next six months.

This is not to say that there will be no depressed industries or geographic areas over the next few months. The existence of such areas is not inconsistent with a state of general prosperity. In some instances, the cause of depressed areas bears little relationship to over-all current conditions, being brought about by factors such as technological changes or relocation of industry. Whether the Federal government should render aid to such sectors is a moot point, and depends largely on the particular case as well as on the general situation at the time.

### Influence of the Elections

Assuming a moderate recovery over the coming months, what about the elections? If the Republicans retain control of Congress, the "favorable business climate" of the past two years would be continued and the business outlook would, in all probability, not be affected. But what if the Democrats were to win control of Congress? Would not this mean an end to this "favorable climate" and a possible reversal of the recovery?

From a psychological point of view the answer, for most businessmen, is clearly yes. But with respect to effects on over-all economic trends, a Democratic victory under the present circumstances is hardly likely to interrupt the current trend and might conceivably even reinforce it. Many of the policies advocated by the Democratic leaders would tend to stimulate business activity rather than to retard it. Principal among these are higher farm price supports, increased government spending, and more tax relief for individuals. Whether such actions represent sound fiscal policy is debatable, but their effect on most business operations is clear, and should offset any psychological letdowns of a Democratic victory.

This conclusion does not apply to all segments of the economy because of differences in the outlook of the two parties. Thus, earnings prospects of utilities may be affected adversely by Democratic opposition to higher rates while that of hard goods manufacturers may be improved if military spending is increased. A person expecting a Democratic victory might also do well to consider selling short before the elections, for nowhere is the psychological reaction to such an occurrence likely to be stronger than in the stock market.

On balance, however, the outcome of the elections is not likely to exert any depressing influence on current business trends. An executive who cuts down on output or purchases for fear of "unfavorable" election results may well find himself losing out not because of the elections but because of the bolder actions of a competitor.

RF



### EDUCATING THE NATION

Book publishing in many ways has changed little over the years. As in the nineteenth century, it is still composed of relatively small, independent, highly competitive firms. The publisher selects the manuscripts to be published, purchases the paper, advertises and distributes his product, and is in general the principal risk-taker and supplier of capital.

Within the field of book publishing there are various kinds of publishing houses. The general or "trade" book publishers account for about 62 percent of all books published. Textbooks are the second major field in the industry with 17 percent of the market; religious books, Bibles, and hymnals account for 10 percent; technical and professional books, 3 percent; subscription books such as encyclopedias, 3 percent; and others, 4 percent.

#### Chicago, the Heart of the Industry

Chicago, the center of the publishing industry, has advanced to where it is more than a mere threat to the time-honored supremacy of New York City. The textbook industry, with over one billion copies published annually, is one of the principal reasons why Chicago is rapidly becoming recognized as the printing and publishing center of the nation. The growth of Chicago textbook and encyclopedia publishers has placed the city in the forefront in the school and reference book field.

Foremost in Chicago, and probably the largest in the nation is Scott, Foresman and Company which has sold millions of college, high school, and grade school books. Another Chicago area company influential in the book publishing field is Row, Peterson and Company whose history, English, and science books are well known by high school students. The University of Chicago's Encyclopaedia Britannica is among the best in the country in the reference book field.

Other firms such as the Dartnell Corporation, Callaghan and Company, and Abbott Publishing Company, to name only a few, add to the impressive list of publishers that make Chicago a book-publishing center.

#### Trade and Textbook Publishers

Trade, or general, books have three major classes—hard-bound publishers' editions, book club editions, and inexpensive paper-bound reprints. In 1951, these three categories accounted roughly for 32 percent, 11 percent, and 57 percent, respectively, of the 408 million copies sold.

Publishers' editions are a relatively low-volume, higher-priced product, with the dominant factor being a "break-even" point in the range of seven to ten thousand copies. If a publisher can average close to ten thousand copies for each new book he publishes in a given year, plus selling publishing rights for a few books to inexpensive reprint publishers and book clubs, he may anticipate a modest profit. In recent years, trade publishers have had a tendency to come out about even on their own editions, and to make their profit on the sale of rights.

Book club operations go back some 28 years, and have had a rapid period of growth. Manufacturing costs are

considerably lower because of very large printings. Royalty costs per book are less per copy than for the original publishing, and the leasing of plates practically eliminates typesetting costs. Another important factor is the greatly reduced distribution cost per book, due to a mass-production basis of assembly, packaging, and mailing.

Inexpensive paper-bound books far outnumber the production of hard-bound trade books, and account for over a third of the annual output of books of all kinds. The main reasons for the phenomenal growth of the paper-bound book in the last 18 years are (1) the high-speed rotary presses which have reduced manufacturing costs; (2) the extremely large backlog of original books for which reprint rights may be secured very reasonably; and (3) the nation-wide system of distribution through magazine wholesale and retail dealers.

Statistics seem to indicate that paper-bound book sales have had relatively little over-all effect on hard-bound original publishing. It is probable that these two types of books are serving separate markets and may not be in direct competition except in the fields of mysteries, westerns, and light fiction. Paper-bound books may also be attracting new book readers from magazine subscribers.

Textbooks are a business in themselves, and have created a market well over the \$125,000,000 mark annually, of which Chicago receives a substantial share. The volume has increased to its present level from \$98,000,000 in 1947, with a continuation of this trend expected because of the growth of the school population.

#### The Outlook

The future form which book publishing will take is, as yet, rather cloudy. Higher production and general costs, which publishers have been unable to pass along to the consumer, have created a dependency for profits on sales to book clubs and on reprint lines. This trend has led to the development of new channels of distribution which by-pass the established retail bookseller.

Bookstores, including book departments of department stores, still provide the chief means of circulating general books. Through them, approximately 70 percent of all publishers' editions of trade books reach the consumer, but whether the bookstores can ward off further declines in their market position remains to be seen.

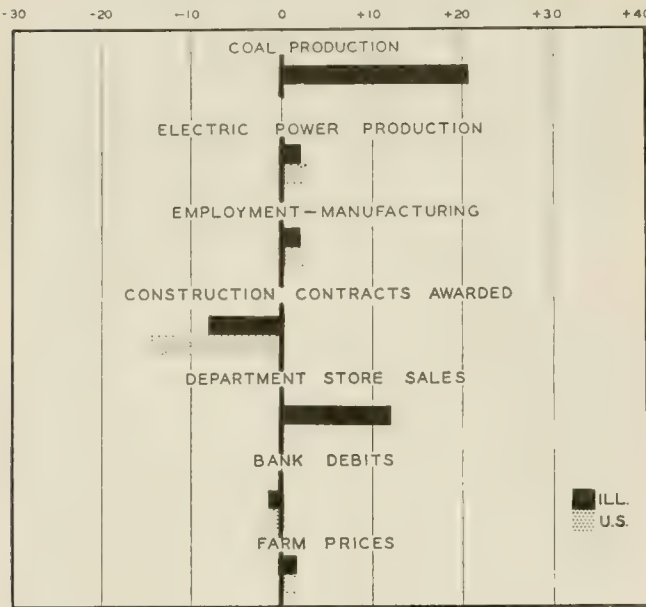
An important determinant of future trends in the industry is whether the growing demand for popular literature will preclude from consideration the publication of books not possessing huge sales potentials. If so, how will this affect promising authors of talent who write good books which could not possibly be sold in the quantities demanded by mass-distribution methods? The library market is an important factor in the publishing of many titles which otherwise would not be economically possible, but it alone cannot sustain all such books. The emerging problem is not the survival of the trade book business, but rather whether creative and thoughtful writing will continue to flourish in view of the growing pressures to cater to mass markets.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes July, 1954, to August, 1954



## ILLINOIS BUSINESS INDEXES

Item	August 1954 (1947-49 = 100)	Percentage Change from	
		July 1954	August 1953
Electric power <sup>1</sup> .....	182.5	+ 2.1	+ 8.5
Coal production <sup>2</sup> .....	64.9	+20.9	- 7.6
Employment—manufacturing <sup>3</sup> ..	101.4	+ 1.9	- 9.9
Payrolls—manufacturing.....	n.a.		
Dept. store sales in Chicago <sup>4</sup> ...	107.0 <sup>a</sup>	+ 2.9	+ 2.9
Consumer prices in Chicago <sup>5</sup> ...	117.7	- 0.3	+ 1.2
Construction contracts awarded <sup>6</sup>	220.4	- 8.1	+14.2
Bank debits <sup>7</sup> .....	140.5	- 1.6	+ 4.4
Farm prices <sup>8</sup> .....	99.7	+ 1.6	- 3.8
Life insurance sales (ordinary) <sup>9</sup> ..	152.6	- 0.5	+ 8.0
Petroleum production <sup>10</sup> .....	103.2	- 1.4	+15.2

<sup>1</sup> Federal Power Commission; <sup>2</sup> Illinois Department of Mines; <sup>3</sup> Illinois Department of Labor; <sup>4</sup> Federal Reserve Bank, 7th District; <sup>5</sup> U. S. Bureau of Labor Statistics; <sup>6</sup> F. W. Dodge Corporation; <sup>7</sup> Federal Reserve Board; <sup>8</sup> Illinois Crop Reports; <sup>9</sup> Life Insurance Agency Management Association; <sup>10</sup> Illinois Geological Survey.  
<sup>a</sup> Seasonally adjusted. n.a. Not available.

## UNITED STATES MONTHLY INDEXES

Item	August 1954	Percentage Change from	
		July 1954	August 1953
	Annual rate in billion \$		
Personal income <sup>1</sup> . . . . .	285.4 <sup>a</sup>	- 0.1	- 0.3
Manufacturing <sup>1</sup> . . . . .			
Sales . . . . .	284.4 <sup>a, b</sup>	- 1.7	- 5.5
Inventories . . . . .	43.9 <sup>b</sup>	- 0.7	- 6.4
New construction activity <sup>1</sup> . . . . .			
Private residential . . . . .	15.3	+ 2.1	+14.7
Private nonresidential . . . . .	13.9	+ 2.0	+ 4.4
Total public . . . . .	14.0	+ 3.9	+ 4.2
Foreign trade <sup>1</sup> . . . . .			
Merchandise exports . . . . .	15.5 <sup>c</sup>	-12.5	- 5.1
Merchandise imports . . . . .	9.9 <sup>c</sup>	-13.1	- 9.5
Excess of exports . . . . .	5.6 <sup>c</sup>	-11.4	+ 4.0
Consumer credit outstanding <sup>2</sup> . . . . .			
Total credit . . . . .	27.9 <sup>b</sup>	+ 0.4	+ 0.4
Installment credit . . . . .	21.3 <sup>b</sup>	+ 0.5	+ 0.5
Business loans <sup>2</sup> . . . . .	20.8 <sup>b</sup>	- 3.5	- 9.3
Cash farm income <sup>3</sup> . . . . .	30.0	+ 8.7	- 4.0
	Indexes (1947-49 = 100)		
Industrial production <sup>2</sup> . . . . .			
Combined index . . . . .	124 <sup>a</sup>	0.0	- 8.8
Durable manufactures . . . . .	135 <sup>a</sup>	+ 0.7	-14.0
Nondurable manufactures . . . . .	116 <sup>a</sup>	+ 0.9	- 2.5
Minerals . . . . .	111 <sup>a</sup>	- 1.8	- 6.7
Manufacturing employment <sup>4</sup> . . . . .			
Production workers . . . . .	100 <sup>a</sup>	- 0.3	-11.4
Factory worker earnings <sup>4</sup> . . . . .			
Average hours worked . . . . .	99	+ 0.7	- 2.0
Average hourly earnings . . . . .	135	- 0.6	+ 1.1
Average weekly earnings . . . . .	134	+ 0.2	- 0.9
Construction contracts awarded <sup>5</sup> . . . . .	206	-14.4	+11.2
Department store sales <sup>2</sup> . . . . .	112 <sup>a</sup>	0.0	0.0
Consumers' price index <sup>4</sup> . . . . .	115	- 0.2	0.0
Wholesale prices <sup>4</sup> . . . . .			
All commodities . . . . .	111	+ 0.1	- 0.1
Farm products . . . . .	96	- 0.5	- 0.7
Foods . . . . .	106	- 0.2	+ 1.4
Other . . . . .	114	+ 0.1	- 0.4
Farm prices <sup>3</sup> . . . . .			
Received by farmers . . . . .	93	+ 1.6	- 1.6
Paid by farmers . . . . .	106	0.0	+ 1.1
Parity ratio . . . . .	89 <sup>d</sup>	+ 1.1	- 2.2

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for July, 1954; comparisons relate to June, 1954, and July, 1953.  
<sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1954					1953
	Sept. 25	Sept. 18	Sept. 11	Sept. 4	Aug. 28	Sept. 26
Production:						
Bituminous coal (daily avg.).....thous. of short tons..	1,345	1,322	1,329	1,275	1,235	1,605
Electric power by utilities.....mil. of kw-hr.....	9,072	9,074	8,808	9,087	9,227	8,354
Motor vehicles (Wards).....number in thous....	68.3	71.4	82.7	108.9	111.2	132.7
Petroleum (daily avg.).....thous. bbl.....	6,089	6,103	6,086	6,019	6,048	6,397
Steel.....1947-49=100.....	101.9	98.5	93.5	94.9	94.3	133.5
Freight carloadings.....thous. of cars.....	710	711	602	688	677	820
Department store sales.....1947-49=100.....	117	120	97	114	102	114
Commodity prices, wholesale:						
All commodities.....1947-49=100.....	109.9	110.0	109.9	109.5	110.0	111.0
Other than farm products and foods.....1947-49=100.....	114.4	114.5	114.4	114.4	114.4	114.7
22 commodities.....1947-49=100.....	90.7	90.8	91.1	90.7	91.4	87.6
Finance:						
Business loans.....mil. of dol.....	21,005	21,023	20,829	20,805	20,773	23,035
Failures, industrial and commercial.....number.....	212	195	168	193	184	152

Source: Survey of Current Business, Weekly Supplements.



# RECENT ECONOMIC CHANGES

## Manufacturers' Sales Off Slightly

Manufacturers' sales declined by \$400 million in August, on a seasonally adjusted basis, to \$23.7 billion. Shipments by both durable and nondurable goods industries were lower than in July. Total sales were 4 percent below last August, with the decline entirely accounted for by reduced sales of durable goods industries. Sales of nondurable manufacturers in August were 3 percent higher than in August, 1953.

New orders increased slightly to \$22.7 billion between July and August, but were still below the current level of sales. As a result, manufacturers' backlogs dropped to \$47.3 billion. This was equivalent to somewhat less than two months sales at the current rate, compared with about two and three-fourths months sales last August.

Manufacturers continued to liquidate inventories in August. Book values dropped by \$400 million to \$43.9 billion after allowance for seasonal factors, a level about \$300 million below book values in August, 1953.

## Business Loans Up

Business loans increased slightly in September to \$21 billion at the end of the month, but nevertheless were more than \$2 billion below the total outstanding in September of last year. As shown by the accompanying chart, loans declined moderately during the first half of the year both in 1952 and in 1953, reached a low in June or July, and then rose with the need for funds for accumulating Christmas inventories and financing crop harvests. This is also the usual seasonal pattern.

This year, however, demand for business loans has declined considerably more than seasonally, and the drop has extended beyond the usual turning point. The decline is mainly attributable to factors associated with the lower level of business activity, principally the inventory liquidation. There has also been some liquidation of bank loans

because of shifts partly to longer-term borrowing on the securities markets and partly to cheaper short-term forms of borrowing such as commercial paper.

In addition, bank holdings of Commodity Credit Corporation and Reconstruction Finance Corporation certificates of interest bolstered the business loan total late in 1953 and early in 1954. More recently, however, CCC loans have been repaid, and the bulk of the decline in outstanding loans in August, when the remaining CCC certificates outstanding were recalled, was accounted for by repayment of these certificates.

## Employment, Unemployment Decline

Both employment and unemployment declined slightly in September as a moderate contraction occurred in the size of the labor force. This was mainly the result of teen-agers returning to school during the month. The decline was confined to nonfarm employment, as the number of farm workers advanced more than seasonally to 7.5 million, 600,000 above August and 265,000 above September a year ago. Census data in thousands of workers are as follows:

	Sept. 1954	Aug. 1954	Sept. 1953
Civilian labor force.....	65,243	65,522	63,552
Employment.....	62,144	62,277	62,306
Agricultural.....	7,527	6,928	7,262
Nonagricultural.....	54,617	55,349	55,044
Unemployment.....	3,099	3,245	1,246

In contrast to the Census estimate of nonfarm employment, the Bureau of Labor Statistics reported the number of factory jobholders advanced by 147,000 to 16.0 million workers in September. However, BLS considers workers on vacation as unemployed, contrary to the policy of the Census Bureau, and the increase reflects mainly workers returning to their jobs after August vacations.

## Housing Starts Continue High

Industry and government sources are predicting that 1954 may be second only to 1950 in the number of new dwelling units started. August nonfarm starts, totaling 111,000, were off only slightly from July, and remained 19 percent over the August, 1953, level. During the first eight months of 1954, 796,000 new units were started, 3 percent more than the number begun in the corresponding period of last year. In some major metropolitan areas, building is proceeding at such a rapid rate that builders are running into shortages of materials and skilled workmen.

A great deal of the demand for new homes is centered in the moderate-price range, \$10,000 to \$20,000. The new housing law is reported to be strengthening this demand. Veterans Administration and Federal Housing Administration officials have recently indicated that applications for VA and FHA insured mortgages have risen sharply.

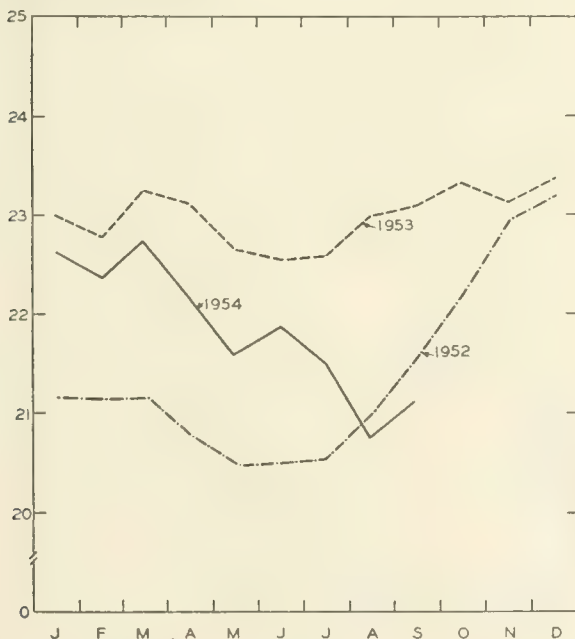
## Dividend Payments Increase

Although corporate profits after taxes in the first half of 1954 were about \$2 billion below last year's first half on a seasonally adjusted annual basis, dividend disbursements this year have been higher. In the first seven months of 1954 publicly reported cash dividend payments totaled \$4.8 billion, up 5 percent from the corresponding 1953 period.

All industry groups, except for textiles and leather, nonferrous metals, nonelectrical machinery and automo-

BUSINESS LOANS

BILLIONS OF DOLLARS



Source: Federal Reserve Board.

biles, raised disbursements this year. Dividend payments by the manufacturing group as a whole were up by 3.5 percent to \$2.4 billion. The transportation equipment, paper and printing, and chemical industries led the advance with gains of 10 percent or more. In nonmanufacturing industries, dividend payments rose 7 percent to \$2.4 billion. The largest gains in this sector were reported by trade firms, with payments up 15 percent from the first seven months of last year, and gas utilities, up 13 percent.

## Corporate Financing

The scope of corporate financing was considerably less in 1953 than in earlier postwar years. Total uses of corporate funds in 1953 amounted to \$28.4 billion as compared with \$31.3 billion in 1952, and the postwar high of \$45.3 billion in 1950. The sharp decline from the peak reflects primarily the reduced need for funds to finance working capital requirements.

The rate of growth of all major categories of working capital has slowed substantially since Korea. Funds used for inventory accumulation amounted to \$9.8 billion in 1950 compared with \$2.6 billion in 1953; the increase in assets in accounts receivable which amounted to \$13.8 billion in 1950 was negligible last year; and corporate holdings of cash, bank deposits, and government securities rose only \$1.2 billion last year compared with \$4.5 billion in 1950.

Accompanying this changing pattern of financial requirements, there has occurred a considerable shift in the sources of corporate funds used to finance these needs. In 1950 nearly 45 percent of capital needs were financed from short-term loans and credit, less than 8.5 percent of total funds originated from new securities issues, and the remaining 46.5 percent was financed from internal sources. As shown by the accompanying chart, short-term sources (included in the "other" category) have declined

sharply in post-Korean years, accounting for only 5 percent of the total in 1953. Internal funds have become relatively much more important, though the absolute amount of depreciation allowances and retained profits has remained fairly stable, ranging from \$18 billion to \$20 billion in the postwar years. New security issues have supplied both a larger absolute and relative share of total corporate financial needs in recent years than in earlier postwar years. This greater reliance on securities markets is attributed to the less liquid position of firms currently.

## Personal Income Down

Personal income declined slightly in August to a seasonally adjusted annual rate of \$285.4 billion, \$1 billion below August of last year. The decline from July, which amounted to only \$300 million, resulted from lower private industry payrolls and a moderate decline in transfer payments. The lower level of income originating in private industry stemmed mainly from small declines in manufacturing and trade employment during the month, whereas most of the decrease in transfer payments reflected reduced railroad retirement benefits. These payments had been increased temporarily in July by a retroactive payment to some classes of beneficiaries.

Partly offsetting the declines were increased government wages and salaries, higher proprietors' and rental income, and higher personal interest and dividend income. Government wages and salaries were about a quarter of a billion dollars above July. Over the past 12 months gains in state and local payments, due to increased employment and pay rates, more than offset Federal government payroll cuts.

## Liquid Saving Near Record

Individuals have been adding record amounts to their liquid savings so far this year. Savings in such forms as cash, bank deposits, insurance, securities, and shares in savings and loan associations increased by \$3.5 billion in the second quarter, a rate which equaled individuals' first quarter savings and was \$400 million more than in the second quarter of last year. The half-year total of \$7 billion equaled the record savings in the first half of 1946 and is higher than for the corresponding period of any other postwar year.

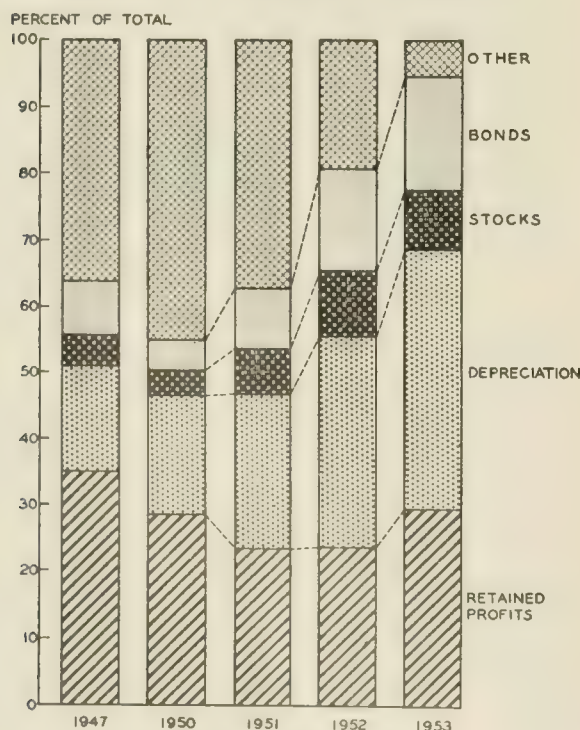
Partially offsetting the increase in liquid asset holdings was an increase in individuals' indebtedness. Mortgage debt increased by \$1.9 billion in the second quarter, compared with \$1.3 billion in the first quarter. Other consumer indebtedness, mainly installment credit on durables, increased by \$400 million, whereas consumers liquidated \$1.5 billion of this type of credit in the first quarter.

## Farm Prices

Prices received by farmers in September declined 2 percent to 246 percent of the 1910-14 base. Prices received for milk, apples, cotton, cattle, tobacco, and wheat were up somewhat, but were offset by lower prices for hogs, commercial vegetables, eggs, potatoes, soybeans, and chickens.

Farm living and production costs were also down slightly — 1 percent — during the month, with food prices leading the decline. However, the greater fall in prices received reduced the parity ratio one point to 88. A year ago the ratio was 93. The decline of the past twelve months is the result of an 11 percent increase in prices paid by farmers as opposed to a drop of only 4 percent in prices received.

SOURCES OF CORPORATE FUNDS



Sources: Securities and Exchange Commission and U. S. Department of Commerce.



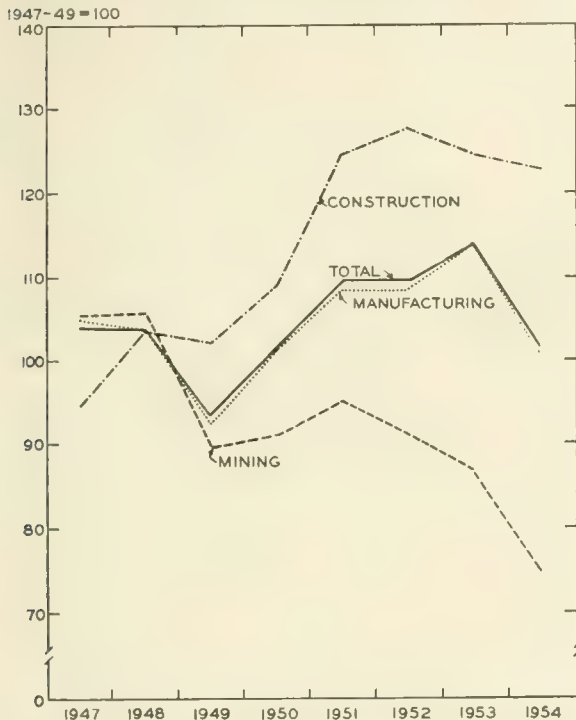
# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### New Indicator of Man-Hours

A new statistical series, "Index of Aggregate Man-Hours in Industrial and Construction Activity," has been developed by the United States Bureau of Labor Statistics. It attempts to show the effects both of changes in employment and changes in the length of the workweek. The series has three major components—manufacturing (which is further subdivided into durable and nondurable goods), construction, and mining—and covers about 40 percent of total nonagricultural employment.

WEEKLY MAN-HOURS, 1947-54\*



\* 1954 figures estimated from first seven months.  
Source: U. S. Department of Labor.

Recent trends in man-hours, as reflected by this series, are shown in the above chart. As is evident, total man-hours worked per week in industry and construction has returned to a level about that of 1947-49. While the components of the index have moved generally in the same direction as the total, there have been significant differences in magnitude. Work in the construction industry surged ahead after 1948 and has declined only moderately in recent years, whereas mining activity, slow to pick up, has fallen sharply for the past three years.

Man-hours in manufacturing have moved closely with the total index. However, its major parts, durable and nondurable goods, again exhibit different movements. While the total manufacturing index for 1953 reached 113.7 percent of the 1947-49 average, durable goods were at a peak 25 percent above this base, but man-hours in nondurable goods continued lower.

### Truckers Beware

Truck weights may soon be checked without truckers ever knowing it. In-motion weighing is the outstanding feature of a new electronic highway scale developed by

Cox and Stevens Aircraft Corporation of Mineola, New York. The unit, capable of handling both single and dual-axle trucks, consists of a platform, three by ten feet, supported by electronic weighing cells which transmit the weight to a recording indicator. The Bureau of Public Roads, Washington, D. C., has had the scale under test for the past two years. It is expected to be of great help in highway research and in detecting overloads.

### Thumb-Saver

New in carpentry is an automatic nail driver for faster, more accurate, and safer hammering. Nails can be fed up to fifty a minute from the hopper through a plastic tube to the nail driver. Compressed air does the work and drives each nail in with a single stroke.

The driver itself weighs about 8½ pounds and is handled something like a shotgun. The barrel is placed in the desired position, the trigger is pulled, and the nail is shot straight into the wood. Because the nail goes straight in with a single blow, it is expected that the machine will be a great help in preventing wood splitting.

The principal markets for the product will probably be construction firms, crate manufacturers, makers of prefabricated buildings, and woodworking industries. Available through the Morgan Machine Company, 1230 University in Rochester, New York, the machine is expected to sell at \$1,000.

### Report on Reports

After six months of publication the *Distribution Data Guide* of the United States Department of Commerce has become a standard report. The guide gives a listing and brief description of reports and publications by the Federal government and its agencies, business firms, professional groups, colleges and universities, and publishing companies. Selections are made on the basis of possible use in sales promotion, merchandising, advertising, and market research. The guide is available on subscription from the U. S. Government Printing Office, Washington 25, D. C., at a price of \$2.00 per year or 15 cents a copy.

### Most Recent in Miracles

Celanese Corporation of America has brought out a new synthetic fiber. It is asserted that this fiber, "Arnel," gives the best balance of performance, versatility, appearance, and price of any synthetic on the market. The fiber is made from cellulose triacetate and can be used alone or blended with other fabrics. It will sell at about 55 cents a pound. The company expects that the fiber will have a large variety of uses, including all types of clothing. The fabric resists fading, shrinking, and stretching, and needs little or no ironing.

### Pleasant Dreams

The latest in sleeping equipment is a combination mattress and foundation called Koylon-Crestaire. It is a combination of foam rubber and air, made so that it can be inflated or deflated to change the firmness to suit the sleeper. The double-size mattress features dual-control. The unit, marketed by the United States Rubber Company, is only 6½ inches thick and can be used on any solid base. The mattresses retail at \$99.50 for the twin size and \$129.50 for the double size.

# COLOR TELEVISION

DALLAS W. SMYTHE, Professor of Economics

Color television is at least 6 to 12 months distant from tapping the "mass market." Currently it offers tempting profit possibilities to tube and other receiving set component manufacturers. Next year it will offer similar possibilities to set manufacturers if volume production begins to attract much of the huge consumer expenditures which will ultimately take place on sets and service. TV networks are now broadcasting color TV regularly, but the present 5,000 receivers are largely placed in public places.

As with every new industry the problems facing color TV are only emerging. Among the more obvious of these are: the problem of production and cost of color TV receivers; gauging the size and timetable for the TV set market; the timing and financial issues in program production and broadcasting; and the effect on other media. These problems must be considered in relation to the fact that in the American system of broadcasting the economic structure is divided between that large portion paid for directly by the viewer-listener (in the form of receiving sets) and that paid for in the first instance by broadcasters and advertisers.

## Developing and Marketing Color TV Sets

Why is it that color TV receivers are not now available in acceptable picture sizes at acceptable prices although the FCC approved color TV 10 months ago? The answer in brief is that since the FCC approved the engineering standards for color TV in December, 1953, the set manufacturing industry has been "trapped" in a technological jam." In order to appreciate its predicament it is necessary to distinguish between the *standards* for color TV (which were formulated by an industry-wide technical coordinating committee) and the *equipment* which implements those standards. At the time of the FCC's approval, the industry was in the position of having announced a new service before it was ready to deliver the service within economic limits acceptable to the public. This unusual state of affairs arose because of the aggressive rivalry between CBS and RCA.

The technology of broadcasting the color program was not the limiting factor; the technology of receiving the program was. At the pickup camera in the studio, three tubes are employed, one for each primary color. At the home receiver, however, this is impracticable; there one tube face must provide all colors with precision requirements not previously met in any electronic device intended for home use. There were also problems involved in circuits and other components but the stumbling block has been the development of a tube which would provide satisfactory performance at reasonable prices.

In this situation the five or six largest electronics manufacturers have vied for position, primarily in tube design. Under extreme pressure the factors at work have been patent positions, research resources, and managerial capacity to plan and produce prototype models of color TV sets incorporating the best that each enterprise had to offer. At stake in the struggle was the rich market anticipated for color TV receivers; the company which developed a really superior tube and associated circuitry could look forward to selling tubes and patent royalties for substantially all color TV sets produced, as well as to the sale of sets bearing its own trademark.

Early in the year several large tube manufacturers

attempted to win such a position through marketing sets with picture tubes rendering pictures comparable in size with those presented by the now obsolete 12-inch round tube for black and white TV. These sets were offered to the public at prices approximating \$1,000 and failed to sell. In the past four months different types of tubes, with different circuitry, and with tube faces ranging up to the "21-inch" size (actually, with some 250 square inches of picture area) have been demonstrated to the TV set manufacturers. It is distinctly possible that equipment systems not yet unveiled may ultimately successfully challenge the current best offerings of the tube manufacturers. If this should happen, the industry's jockeying for position will be extended and the timetable for reaching the mass market for color TV will be delayed beyond the 6 to 12 months mentioned previously. At present two of the tube manufacturers have demonstrated receivers (RCA with 250 square inches, and CBS-Hytron with 205 square inches) with performance generally accepted by the set manufacturers as adequate. RCA has indicated a probable initial retail price of between \$800 and \$900, whereas CBS has indicated a price of \$950.

Unless more attractive offerings are forthcoming in the next couple of months, we may expect that a substantial part of the potential set-manufacturing industry will proceed to translate prototype models based on these tubes to the production of TV sets. While enthusiastic production and sales predictions for the last quarter of this year are being made by manufacturers interested in currently available equipment, it appears likely that not more than 15,000 color TV sets will be distributed in this period. This will supply dealers and public amusement places, with relatively few sets going into homes.

## The Color TV Set Market

One of the contributing factors to the set industry's willingness to defer its equipment decision on color TV is the fact that the black and white TV market is as yet far from saturated. On May 1, 1954, 28 million households in the United States had at least one black and white TV set. While this is impressive, the fact that almost 20 million more are still unsupplied is also impressive. Nor may it be assumed that all these 20 million homes are in socio-economic groups which are hard to sell TV. For the existing TV households are disproportionately located in areas which had TV stations prior to the 1949 freeze. In the Northeastern section, 72 percent of the households have sets, and the same is true of metropolitan areas generally. In many pre-freeze TV communities, set saturation runs between 80 and 90 percent.

It appears that apart from the pre-freeze TV cities (Chicago and Rock Island-Moline), none of the TV communities in Illinois now exceeds 50 percent black and white set saturation. In rural areas, country-wide, on May 1, only 35 percent of households had black and white sets. That this unexhausted market is currently active is indicated by production of almost 200,000 sets in one September week—the highest weekly production in 21 months.

The profit impetus which lies behind color TV nevertheless assures us that within a year or so after the industry begins set production, color sets will be in mass production, selling in the range of \$500-\$600, and will be



subject to high-pressure merchandising. Thus, the president of RCA predicts that at factory prices, color TV will sell to the extent of more than a quarter billion dollars in 1955, more than three quarters of a billion in 1956, and almost a billion in 1957. If by the end of 1957 General Sarnoff's estimate of 5 million color TV sets in the hands of the public has been realized, color TV will be off to a solid start. If by the end of the following year there are as he expects 10 million color sets outstanding, color will then have passed the degree of set saturation enjoyed by black and white TV in 1950. These forecasts must be hedged with the proviso of no major economic recession and a caveat concerning possible over-optimism on the part of the forecasters.

## Program Production and Broadcasting

The RCA and CBS networks long since began broadcasting occasional TV programs in color. In September, 1954, both of them went on regular schedules averaging two to three hours per week. Neither of the other two networks has broadcast color programs or announced future plans for them. About 100 stations now broadcast these programs and by the first of 1955, 125 stations may be equipped to broadcast them. By then the American Telephone and Telegraph Company will be equipped to provide color program transmission to most stations it now serves with black and white programs. In Illinois such service is available to Chicago, Peoria, Rock Island-Moline, and Champaign stations. In other Illinois cities, AT&T will provide such service on six months notice.

The cost of equipping stations will heavily influence both the timing and the scope of color TV broadcasts to the public. The least expensive type of color service is restricted to local broadcasting of network programs in color; for this between \$20,000 and \$40,000 will be needed to equip each station. The next type of color service is the broadcasting of color advertisements from slides (considered desirable to draw local and national spot advertising) and color programs from film; the cost of slide equipment is about \$28,000 and of one color film camera, \$46,000 per station. The third type of color service is broadcasting local live programs from the station studio; a minimum of two color cameras each costing \$67,000 will be needed per station. The fourth type of color service is the broadcasting of local programs from outside the studio, including sports programs; no equipment is yet offered for this service.

Even the first three types of service would now require an additional capital investment of \$228,000 to \$248,000 per station. These sums approximate the total equipment investment by a small or medium-sized black and white TV station. Given time, and some reduction in equipment prices as manufacturers become more competitive, profitable black and white TV stations could in most cases finance color out of earnings (just as black and white stations were largely paid for by AM radio earnings). A large number of stations are, however, unprofitable at present and even the minimum investment required for color will force owners to make heavy new capital investments. A further substantial burden will be higher operating costs for color broadcasts.

If the investment for color seems high for local stations it is probably proportionate for networks. Nevertheless the two largest networks, as noted, are aggressively pushing color. Large national advertisers who can now afford to sponsor network programs on black and white TV are experimenting with network color broadcasts, and

it appears that color TV advertising will be even more effective than black and white.

Already TV has forced changes in the pattern of advertiser support which radio had evolved: multiple sponsors for single programs and less than once-a-week sponsorship are adaptive devices forced on sponsors by the high cost of TV. Thus, the most popular 30-minute situation comedy program, "I Love Lucy" (with a single sponsor), cost an average of \$35,000 per week in 1953-54 for talent and production, plus perhaps as much again for station time and cable costs. At the same time the Jackie Gleason hour-long comedy program with music and dancing cost three joint sponsors a total of \$72,000 per week for talent and production, plus payments for station time and cable costs. While TV networks justify such expenditures to sponsors by pointing to comparative costs per thousand homes reached by TV and by rival media, the absolute size of advertising budgets nevertheless restricts the number of possible sponsors. Color TV obviously poses grave policy issues to advertisers.

The financial issues raised by color can hardly fail to stimulate proponents of subscription-TV who have proposed it as a necessary supplement to advertising support even for black and white TV. In recent weeks Skiatron has followed Zenith Radio Corporation in formally petitioning the FCC to authorize subscription TV. The possibility of obtaining revenues directly from viewers in exchange for broadcasting programs free of advertising matter has attracted wide interest.

## Effect on Rival Media

From the standpoint of popular appeal, color will intensify the rivalry between TV and other media, especially motion picture theaters and magazines. The movies have apparently made substantial progress toward repairing the damage done by black and white TV to their receipts. In this recovery considerable help has been obtained from making pictures suitable to the new screen aspect-ratios. While color TV pictures, even when blown up to the size of a 30-inch screen, cannot rival the panoramic scope and detail of movies, color TV may safely be counted on to stimulate the motion picture industry to new defensive measures. As between TV and other media dependent largely on advertising revenues, it appears that TV is cutting into expenditures by advertisers on other media, on radio as well as on magazines and newspapers.

## Summary

Color TV is not an entirely new medium of communication as was black and white TV. Set producers are still in a technological jam, and it appears that when sets begin to reach the market in any volume they will be priced closer to \$1,000 than to \$500. For these reasons, it is expected that color set purchases in the next five years will grow less rapidly than did black and white in its early years (between 1946 and 1950). However, there may be as many as 5 million sets by the end of 1957, assuming no major depression.

The source of color programs will tend to be confined even more closely to network and film than at present. For TV stations, networks, and advertisers, color raises a variety of financial and policy issues because of its substantially increased costs. Subscription TV, which has already been seriously proposed by several companies, may be rendered more attractive as a device for broadening the economic base of the industry. Inevitably color TV will heighten intermedia rivalry for public attention.

# LOCAL ILLINOIS DEVELOPMENTS

Business activity in Illinois exhibited mixed trends during August. Coal production of State mines was down almost 8 percent from a year earlier, whereas the other major fuel produced locally, petroleum, had gained over 15 percent from 1953. Farm prices rose 1.6 percent during August, but remained below a year ago, whereas the index of consumer prices in Chicago showed a slight decline for the month, but remained above a year ago.

A seasonal increase brought manufacturing employment up 2 percent from July, although it is still 10 percent under 1953. Business loans at leading Chicago banks began their fall seasonal rise with a monthly gain of 1.2 percent, but remained 10.7 percent below August, 1953. On the other hand, two other series, construction contracts awarded and bank debits, registered declines for the month of 8.1 percent and 1.6 percent respectively, although the indexes are well above their year-ago levels.

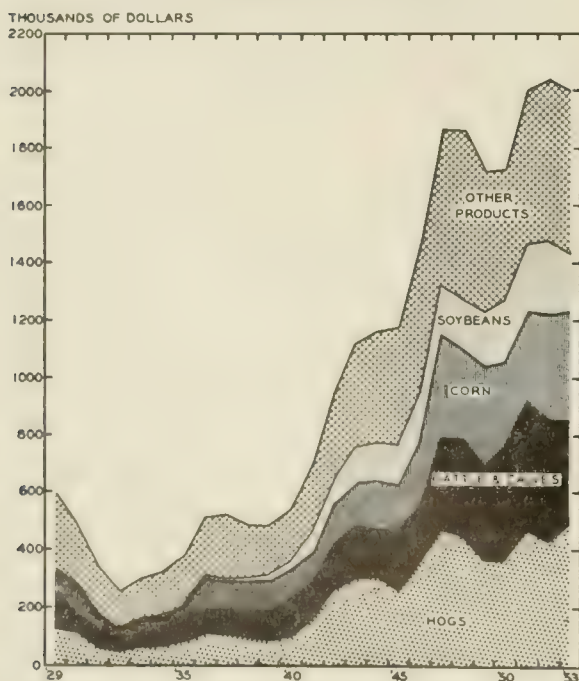
## Cash Farm Receipts Continue High

Growth has been the outstanding characteristic of cash farm marketing receipts in Illinois during the past twenty-five years. Except for temporary setbacks when adverse business conditions brought about lower prices, Illinois farmers' receipts from crops and livestock marketing have moved upward since 1932, as is shown in the accompanying chart.

While this growth has been evident in all sectors of the State's farm economy, the relative importance of various income sources has changed markedly. Soybeans have increased from less than 1 percent of total farm receipts in 1929 to well over 10 percent of the total in recent years. Cattle and calves have also gained in importance, whereas the two other major income producers, corn and hogs, have remained at a fairly constant proportion of the total.

If the first half-year is any indication, Illinois farmers should enjoy close to record marketing receipts in 1954.

CASH FARM RECEIPTS, 1929-53



Source: U. S. Department of Agriculture.

A 3 percent increase in receipts from livestock and products combined with a 9 percent rise in crop income to raise the total more than 5 percent above total receipts in the first half of last year.

## The Open Road

Bridges and roads all over Illinois are being repaired and extended to meet the increasing demands of travel and shipping. Late in September Mr. Edwin A. Rosenstone, Director of Public Works and Buildings for the State, announced the awards of 15 road and bridge building contracts. These cover work in 11 counties and will entail expenditures of \$1,428,000.

Earlier in the month, the first contract for a new bridge over the Illinois River at Peoria was announced. This bridge, expected to cost a total of \$19,500,000, is being financed by a combination of local, State, and Federal funds. It will have two nine-mile approaches with four-lane divided expressways. It is hoped that this new bridge will solve the bottleneck in through traffic that has existed in Peoria for many years.

Another important bridge project under way is a toll bridge over the Wabash River from New Haven to be built in conjunction with the state of Indiana. Work has already begun in Indiana, and construction on the Illinois section may begin next year.

## Rainfall Study

A rainfall study which may yield information profitable to farmers throughout the State, and perhaps elsewhere as well, is being planned in the Crab Orchard area of southern Illinois. The study is being made by the Illinois State Water Survey and the geography and geology departments of Southern Illinois University.

The chief objectives of the project are to determine the variability of rainfall in the area, the possible influence of Crab Orchard Lake on precipitation, and rainfall runoff and area-depth relationships. The accuracy of radar measurements of rainfall made from the Champaign station of the State Water Survey will also be tested by ground measurement.

Eighty rain gauges will be placed over an area of 400 square miles in the area of the Crab Orchard watershed. Local volunteers are being asked to read these gauges after each rainfall, and they will report their readings weekly to the University. It is expected that the project may take as long as ten years before findings can be regarded as conclusive.

## Illinois Public Aid Rolls

A contra-seasonal increase of 1,524 persons brought the total number of people receiving aid from the State in July to 265,664. The general assistance program accounted for well over 90 percent of the July increase. Since this program includes unemployment benefits, it is believed that drought conditions in central and southern Illinois, lessening the need for seasonal workers, may well have been the cause of the counter-seasonal movement.

Other July increases were recorded in aid to dependent children, disability assistance, and aid to the blind. The only decline reported was in old age assistance. The number of such people receiving assistance has been dropping steadily for the past year. At the end of July the total was almost 5,000 persons less than a year earlier.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

August, 1954

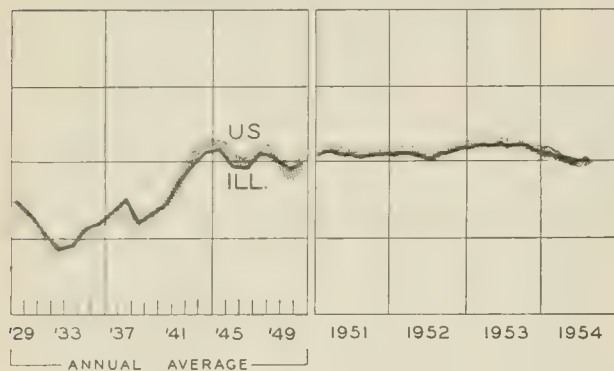
		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>6</sup> (000)
<b>ILLINOIS...</b>		<b>\$27,796<sup>a</sup></b>	<b>909,732<sup>a</sup></b>	<b>\$487,745<sup>a</sup></b>		<b>\$12,283<sup>a</sup></b>	<b>\$12,846<sup>a</sup></b>
Percentage Change from...	July, 1954	+10.7	-1.2	-10.0	+12	-1.0	+9.0
	Aug., 1953	-8.0	-1.9	-5.9	0	+3.9	+18.0
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b>		<b>\$21,705</b>	<b>688,609</b>	<b>\$353,158</b>		<b>\$11,262</b>	<b>\$11,257</b>
Percentage Change from...	July, 1954	+13.4	-2.7	-12.0	+11	-1.6	+10.7
	Aug., 1953	-10.2	-3.2	-6.0	+1	+4.4	+19.9
<b>Aurora</b>		<b>\$ 572</b>	<b>n.a.</b>	<b>\$ 6,964</b>		<b>\$ 45</b>	<b>\$ 105</b>
Percentage Change from...	July, 1954	+10.0		-11.2	+12	-6.6	+2.0
	Aug., 1953	+111.0		-5.3	-8	-3.2	+2.7
<b>Elgin</b>		<b>\$ 634</b>	<b>n.a.</b>	<b>\$ 5,130</b>		<b>\$ 30</b>	<b>\$ 93</b>
Percentage Change from...	July, 1954	+40.0		-9.0	+29	-8.3	+20.2
	Aug., 1953	+10.8		-5.4	+3	+6.4	+6.9
<b>Joliet</b>		<b>\$ 543</b>	<b>n.a.</b>	<b>\$10,545</b>		<b>\$ 57</b>	<b>\$ 80</b>
Percentage Change from...	July, 1954	+62.1		-3.9	+16	-9.7	-7.6
	Aug., 1953	+30.5		-15.1	+2	-1.6	+7.3
<b>Kankakee</b>		<b>\$ 139</b>	<b>n.a.</b>	<b>\$ 5,040</b>		<b>n.a.</b>	<b>\$ 36</b>
Percentage Change from...	July, 1954	+0.0		-5.6	n.a.		+11.1
	Aug., 1953	-43.0		-7.2			+31.3
<b>Rock Island-Moline</b>		<b>n.a.</b>	<b>17,973</b>	<b>\$ 9,266</b>		<b>\$ 75<sup>b</sup></b>	<b>\$ 162</b>
Percentage Change from...	July, 1954		-8.7	-5.5	n.a.	-9.6	+22.7
	Aug., 1953		-3.2	-4.5		-4.6	+14.7
<b>Rockford</b>		<b>\$1,581</b>	<b>28,954</b>	<b>\$15,211</b>		<b>\$ 128</b>	<b>\$ 165</b>
Percentage Change from...	July, 1954	+68.9	+10.9	-5.4	+13 <sup>c</sup>	-2.4	+9.8
	Aug., 1953	+71.0	-8.7	-3.7	-9 <sup>c</sup>	+0.7	+15.5
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b>		<b>n.a.</b>	<b>6,597</b>	<b>\$ 5,084</b>		<b>\$ 52</b>	<b>\$ 71</b>
Percentage Change from...	July, 1954		-1.9	-7.3	n.a.	-14.1	-9.8
	Aug., 1953		-0.9	-21.1		+0.0	-8.8
<b>Champaign-Urbana</b>		<b>\$ 180</b>	<b>8,154</b>	<b>\$ 6,462</b>		<b>\$ 45</b>	<b>\$ 72</b>
Percentage Change from...	July, 1954	-43.2	-12.4	-12.2	n.a.	-17.6	+7.0
	Aug., 1953	-17.8	+4.6	-0.5		-6.1	+4.0
<b>Danville</b>		<b>\$ 75</b>	<b>9,065</b>	<b>\$ 5,463</b>		<b>\$ 41</b>	<b>\$ 53</b>
Percentage Change from...	July, 1954	-60.1	+0.3	-5.3	+20	-11.9	-0.9
	Aug., 1953	-53.1	+2.7	-6.6	-11	+1.6	+10.0
<b>Decatur</b>		<b>\$ 483</b>	<b>24,583</b>	<b>\$10,004</b>		<b>\$ 82</b>	<b>\$ 109</b>
Percentage Change from...	July, 1954	-61.7	+0.8	-10.5	+10 <sup>c</sup>	-8.7	+10.0
	Aug., 1953	-65.8	+11.9	+2.0	-7 <sup>c</sup>	+6.0	+23.5
<b>Galesburg</b>		<b>\$ 416</b>	<b>6,690</b>	<b>\$ 4,003</b>		<b>n.a.</b>	<b>\$ 31</b>
Percentage Change from...	July, 1954	+90.8	-7.4	-6.2	n.a.		-4.3
	Aug., 1953	+110.1	+4.7	-3.7			+16.4
<b>Peoria</b>		<b>\$ 502</b>	<b>46,017<sup>c</sup></b>	<b>\$15,245</b>		<b>\$ 179</b>	<b>\$ 205</b>
Percentage Change from...	July, 1954	+49.0	+8.9	-11.3	+19 <sup>c</sup>	+1.5	-2.7
	Aug., 1953	+8.4	-6.1	-7.7	-7 <sup>c</sup>	-10.2	+11.8
<b>Quincy</b>		<b>\$ 187</b>	<b>9,198</b>	<b>\$ 4,575</b>		<b>\$ 35</b>	<b>\$ 70</b>
Percentage Change from...	July, 1954	-35.5	+14.4	-5.9	+27	-3.7	+17.7
	Aug., 1953	-30.7	+18.4	-1.1	+2	+3.3	+8.0
<b>Springfield</b>		<b>\$ 256</b>	<b>30,611<sup>c</sup></b>	<b>\$12,993</b>		<b>\$ 94</b>	<b>\$ 203</b>
Percentage Change from...	July, 1954	-17.4	+3.9	-1.0	n.a.	-2.7	+4.8
	Aug., 1953	-14.7	+11.0	-4.6		+2.6	+25.8
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b>		<b>\$ 124</b>	<b>13,571</b>	<b>\$ 9,263</b>		<b>\$ 125</b>	<b>\$ 64</b>
Percentage Change from...	July, 1954	-51.4	+5.4	-1.0	n.a.	-1.7	-18.7
	Aug., 1953	-66.0	+24.5	-4.3		+7.8	+14.0
<b>Alton</b>		<b>\$ 115</b>	<b>13,040</b>	<b>\$ 4,774</b>		<b>\$ 34</b>	<b>\$ 27</b>
Percentage Change from...	July, 1954	-47.5	+9.2	-4.6	n.a.	-5.5	-7.7
	Aug., 1953	-29.9	+8.4	-4.6		-3.0	+10.2
<b>Belleville</b>		<b>\$ 284</b>	<b>6,671</b>	<b>\$ 4,566</b>		<b>n.a.</b>	<b>\$ 43</b>
Percentage Change from...	July, 1954	+40.6	+5.6	+0.1	n.a.		+25.4
	Aug., 1953	+278.7	+6.9	+3.3			+21.6

<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for July, 1954, the most recent available. Comparisons relate to June, 1954, and July, 1953. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

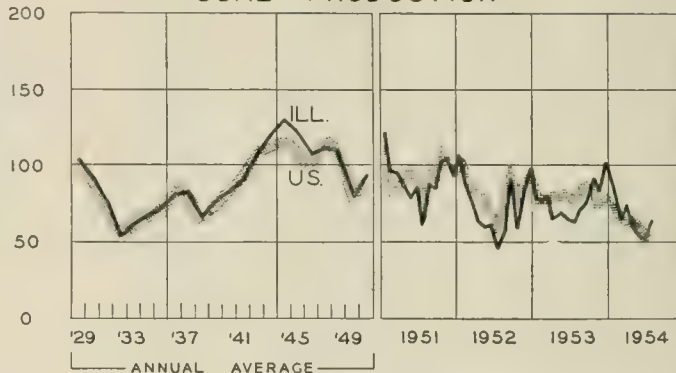
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

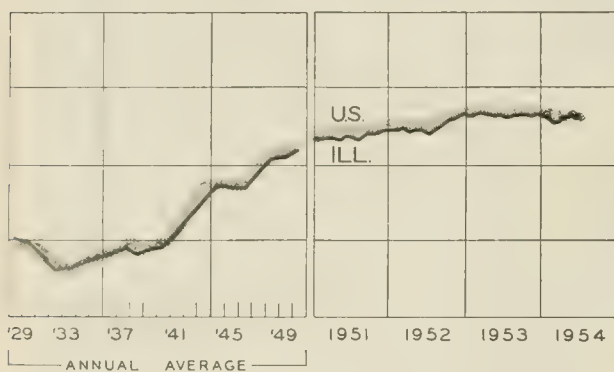
## EMPLOYMENT - MANUFACTURING



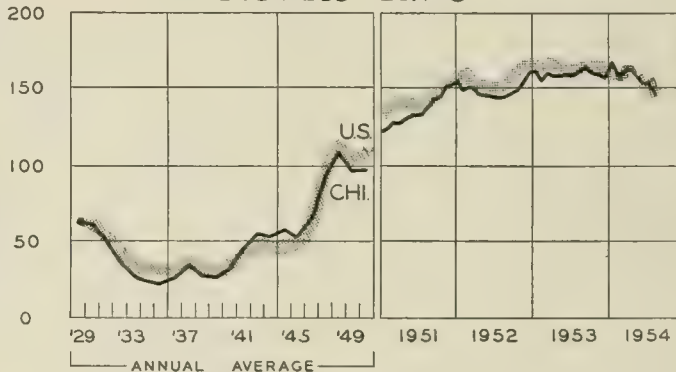
## COAL PRODUCTION



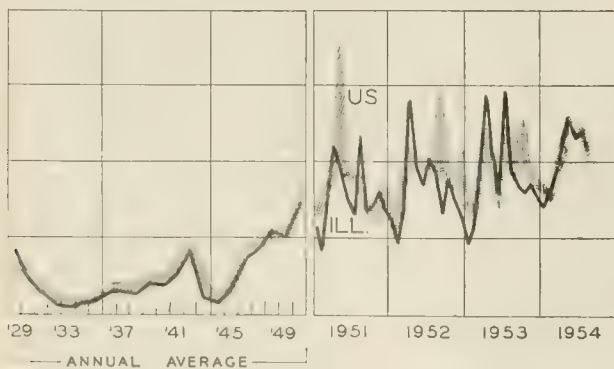
## AVG. WKLY. EARNINGS — MANUFACTURING



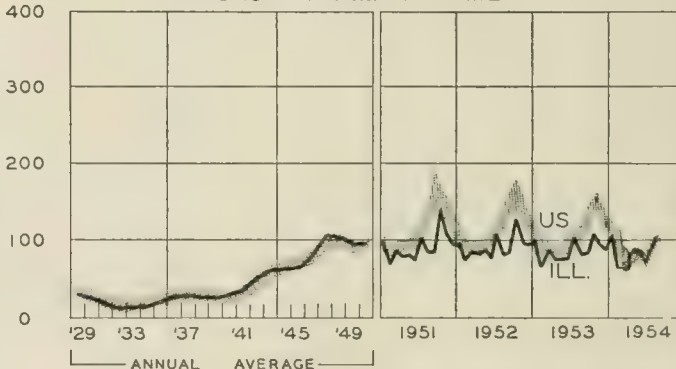
## BUSINESS LOANS



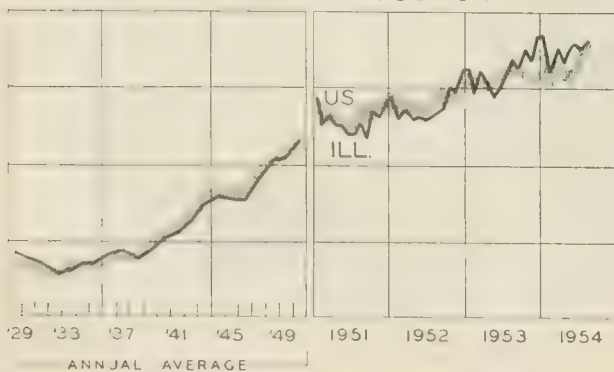
## CONSTRUCTION CONTRACTS AWARDED



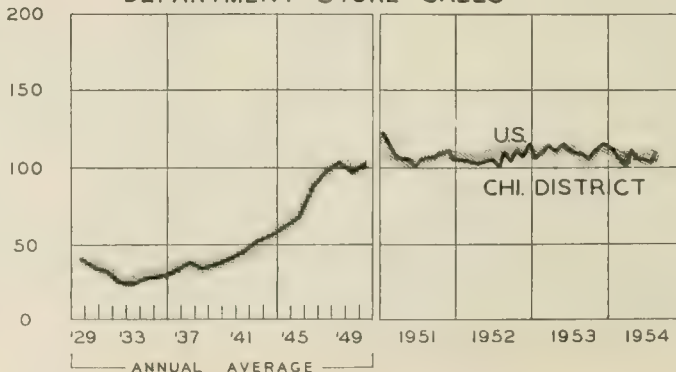
## CASH FARM INCOME



## ELECTRIC POWER PRODUCTION



## DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

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## HIGHLIGHTS OF BUSINESS IN OCTOBER

Evidence of an upswing in activity began to appear in October and early November. Automobile output advanced substantially over the September level as model changeovers were completed and large-scale production was resumed. Partly as a result of the increased demands of the auto industry, steel production also picked up substantially. For the first week of November, production was scheduled at 75.7 percent of capacity, the highest rate since mid-December, 1953. A month earlier the production rate had been 71 percent.

Retail sales were estimated at \$14.6 billion for October. After allowance is made for seasonal factors, sales of retail stores were 1 percent below those for September but were unchanged from October, 1953. Lower sales for motor vehicle dealers and gains for department stores and service stations were the major changes from September.

Reflecting this increased activity, unemployment declined to 2.7 million and nonfarm employment rose. However, total employment remained unchanged because of the usual seasonal decline in farm work and the consequent departure of many farm family members from the labor force.

### New Construction Records

About \$3.5 billion of new construction was put in place in October. Although down seasonally from September, this was a record high for the month, 8 percent above the October, 1953, level. Both total private and total public construction were at an October peak. Private nonfarm residential building, valued at \$1.3 billion, was the same as in September, and also set an all-time October high.

Construction activity in 1954 has risen almost steadily since the first of the year. The total for 1954 is now expected to reach \$37 billion, well above the \$35.3 billion expenditure in 1953, the previous record year. Total private building in the first ten months of 1954 amounted to \$21.1 billion, 6 percent above 1953.

Homebuilding also continued at a high level, with 114,000 dwelling units started in September. This was up 3 percent from August and almost one-fourth above the year-earlier figure. Total housing starts in the first nine months of this year came to 906,500 units as compared with 866,400 starts during the corresponding period of 1953.

### Manufacturers' Sales Advance

Shipments by manufacturers rose about 1 percent in September, after seasonal adjustment, recovering about

one-third of the August decline. Increases were general, motor vehicles being the only major exception. Declines in this industry resulting from model changeovers virtually offset substantial gains in other durable goods industries.

The chief encouragement in the manufacturing picture comes from new orders, which rose in September to \$24.2 billion, the highest rate (seasonally adjusted) since mid-1953. The largest increase occurred in durable goods, mainly as a result of new defense orders placed with transportation equipment companies. Among non-durables, there was a substantial advance in new business for textile producers.

Inventories at the manufacturing level continued to decline both before and after adjustment for seasonal factors. As in previous months, most of the decrease was centered in durable goods. At wholesale and retail levels, the book value of stocks increased, but less than usual at this time of year.

### Personal Income Rises

The nation's personal income rose \$2 billion in September to \$287.4 billion at an annual rate. This was fractionally below the record \$288.2 billion of July, 1953. The larger part of the month's advance occurred in proprietors' and rental income, which was up by \$1.1 billion; small increases were general in other nonfarm income groups. Agricultural income rose 3.9 percent — the largest relative gain — to \$15.8 billion.

Wages and salaries of workers in private industry were up slightly from August to \$161.5 billion. Higher average hourly earnings were the chief element in a small advance in manufacturing payrolls. Government payrolls remained at \$34.2 billion, with a decrease in Federal payrolls balancing increases in those of state and local governments.

### Farm Prices Off Again

Prices received by farmers fell for the second month in succession during the month ended October 15, dropping 1.6 percent to the lowest level since early 1950. Chief factors in the decline were seasonally lower prices for hogs, an unusually sharp decrease in citrus prices, and lower prices for potatoes, corn, and cattle.

Prices paid by farmers declined only slightly during the same period. As a result, the parity ratio, which represents the division of prices received by prices paid by farmers, declined another index point to 87. Last October the parity ratio stood at 90.

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## On (Mis)Interpreting Government Statistics

Statistics are funny. On paper they appear as cold, immutable facts, invariant to change. Yet when one begins to work with them and ascertain their meaning, they assume a degree of flexibility that is wondrous to behold. Disraeli's reputed remark to the effect that "there are three kinds of lies: lies, damned lies, and statistics" is perhaps a more gentle remonstrance of this phenomenon than others which have made (it might also be noted that the categories are not mutually exclusive), but it is indubitably true that there can be, and often are, about as many different interpretations of a set of statistics as there are people doing the interpreting.

In part this is due to the differences in people's views and interests—not to overlook such important psychological influences as one's frustrations, fears, alter ego, and prenatal experiences. In part, also, it results from differences in the amount of information people have about the statistics. The latter is especially relevant in the case of government statistics on business trends, statistics which are of universal interest and which are given such wide publicity that everybody has the opportunity to do his own "statisticking."

At the same time, relatively little is said (or at least publicized) about the reliability of these statistics and about how to interpret them. Although this matter of interpretation is by no means an easy task, and often confuses experts as well as laymen, there are a few pointers which, if kept in mind, make it easier to interpret government statistics than to misinterpret them.

### What's in Them

Basic to the problem of interpretation is a little knowledge about what is being interpreted. Without such knowledge it is impossible to judge the extent to which certain changes reflect real happenings and the extent to which they may be due to quirks in the data. Answers to questions like the following are therefore essential to intelligent interpretation:

1. How are the statistics defined? This matter of definition rivals the multiplicity of languages as one of the biggest stumbling blocks ever invented by man. Finding a man outside of Washington, D. C., who can really understand the President's annual budget reports is about as rare as finding an iced drink in the Sahara Desert. Changes in a business indicator may be the result of

purely definitional circumstances. Thus a decline in those receiving unemployment insurance may simply indicate exhaustion of benefits under the law, and not a decline in unemployment. There is little justice in such matters either, for what invariably happens is that just after one has mastered the meaning of the various statistics, someone comes along and changes the definitions!

2. How were they collected? Data collected by a complete canvass of all pertinent establishments, such as the statistics on government expenditures, tend to be more reliable than data collected from a sample of establishments or estimated by indirect methods. Such data are not without errors, but especially when a relatively small number of establishments is involved, these errors are more subject to control. The sampling errors in such survey-based estimates as retail sales and consumer prices are generally very small, but errors due to faulty response and failure to respond can throw off these estimates considerably. Other factors also count, such as the bias in the consumer price index in the past caused by the omission of special sale prices. Statistics estimated indirectly, as from related data or as the difference between two other sets of statistics, often involve a considerable margin for possible errors.

3. When were the data collected? This is particularly important in the case of forecast statistics, such as the SEC-Department of Commerce estimates of planned capital expenditures. Developments between the time the data are collected and the time they are published can at times seriously limit their value. A similar danger exists with regard to such a series as unemployment, which is estimated for one month on the basis of data collected in the second week of the month. In times of rapid change, the representativeness of these data for a whole month may be in doubt.

4. Is any adjustment made for seasonal variations? Basically, there are two aspects to be considered. One is that many if not most business indicators are affected by seasonal influences. The mere fact that a business statistic is published without adjustment for seasonal variation does not mean that this factor has no influence and can be ignored. It is more likely to indicate that the effect may be a highly complex one or that the agency involved simply does not have the necessary funds for the task. Secondly, where figures have been adjusted for seasonal variations, acceptance with something other than maidenly innocence is not unwise. There is as yet no fully satisfactory method of distinguishing seasonal effects from others, and the techniques in current use rest to a large extent on personal judgment.

5. Are the figures expressed as absolute sums or as percentage changes? Percentage changes from one period to another are often more reliable than the actual figures themselves, because biases in the data tend to remain fairly constant and their effect is largely eliminated when comparisons are made over time. Thus, the level of department store sales may be continuously biased in a particular area by inadequate coverage of suburban stores. This bias is likely to have little effect on the change in sales from one month to the next, however, so monthly percentage change figures would hardly be affected.

### Drawing Interpretations

Here are a few considerations to take into account in doing the interpreting (assuming that one has done his homework and obtained background information):

1. Make some allowance for errors in the figures. If

(Continued on page 6)



### THE CHICAGO BOARD OF TRADE

As the largest contract grain market in the world, the Chicago Board of Trade has had a major role in the remarkable growth achieved by American agriculture. The exchange handles billions of bushels of grain annually and promotes uniform grain prices over the entire country.

Organized in 1848 as a voluntary association of 82 businessmen who confined their activities to cash grain trading, it has expanded to 1,422 members representing 37 states and 12 foreign countries. The Exchange neither buys nor sells grain itself, but confines its activities to providing services and facilities for those who wish to do so. It is a public market place, the nerve center of a marketing system operating under Federal authority, where buyers and sellers located all over the world trade through their agents, the Board of Trade members.

The men on the trading floor conducting the business are all members of the Board of Trade, and gather daily to buy and sell commodities according to their needs and current market conditions. To the visitor, the trading carried on by hand signals and shouting along with the scurrying of messengers appears to be a bedlam of disorganization. However, to those who are familiar with Exchange procedures it is a prime example of rapid-fire business efficiency matured by 106 years of operation.

#### Functions of the Exchange

The services performed by the Exchange for farmers, processors, and consumers are numerous and of vital importance to our economy. It provides a central meeting place for buyers and sellers, furnishes up-to-the-minute price quotations, establishes standard grades of quality, and supplies a forward pricing system (hedging) that is invaluable to customers of the Exchange.

When a customer wishes to make a purchase of a specific commodity, he places his order with a member brokerage firm whence it is transmitted to the Exchange member of the firm who is on the trading floor of the Exchange. If it has been specified that immediate delivery is desired, the buyer makes his selection from among the samples of grain displayed in small brown paper bags on the tables of the cash market, located under the north windows of the hall, opposite the visitors' gallery. These samples are from every carload of grain arriving in Chicago and have been graded by the Illinois State Grain Inspection Department.

If a customer has specified that a future delivery is desired, the buyer commences negotiations in the futures market with other members of the Exchange. The futures contract is entered into verbally and later confirmed in writing, calling for the delivery of a specified number of bushels of a certain grain of commercial quality, during a definite month, and at an agreed price.

All futures bidding is carried on by hand signals and shouting as provided for by rules and regulations of the Exchange. In addition to using signals for price and amounts, traders also use the position of the hands to show whether they are buying or selling. The palm of

the hand held up and inward is a bid to buy, while the palm held outward is an offer to sell. Fingers held vertically indicate the quantities traded, with each finger representing 5,000 bushels, while price signals are made by fingers held horizontally, each finger representing one-eighth of a cent.

Every trader lists the transactions he makes on a trading card, one side of which is printed in blue for purchases and the other in red for sales. Each notation, representing a trade, shows the quantity and kind of grain, the maturity month of the contract, the price, from whom purchased or to whom sold, and the initials of the broker. These trading cards constitute the original record and are as binding as a formal contract.

#### Hedging and Speculation

Hedging is a form of business insurance that minimizes the risk involved in carrying raw material inventory supplies. Successful hedging is in itself a scientific market operation, but in its basic form it is a relatively simple financial maneuver. In order to protect himself against changing price levels, the trader simultaneously sells as much in the futures market as he buys in the cash market.

To illustrate, assume that a flour miller buys 1,000 bushels of wheat in the cash market for immediate delivery on November 1 at \$2.25 per bushel, paying \$2,250. At the same time he sells 1,000 bushels for future (May) delivery at \$2.25 per bushel. Let us say that in January he sells the flour-equivalent of the 1,000 bushels of wheat he has been holding in his elevator, basing his flour price on the current market price which is, say, \$2.00 per bushel, thereby receiving \$2,000. At the same time he buys 1,000 bushels of wheat at \$2.00 per bushel to cover his earlier sale on the futures market. The decline in the price of wheat resulted in a loss of 25 cents per bushel in the cash transaction, but this loss was offset by a profit of 25 cents per bushel in the futures purchase. If the miller has no immediate buyer for flour, he may not wish to process the wheat, so he may hold it until May and deliver it on his futures (May) contract.

Speculation in commodities serves a useful purpose in that it removes an element of uncertainty by transferring the risks of ownership during a period in which price declines might occur. Speculators buy and sell in the hope of profiting from the rise and fall of commodity prices, and in so doing absorb the orders placed by traders in their process of hedging. Without speculation, it would not be possible to place or remove hedges with the ease obtainable only in a market having such a high degree of liquidity.

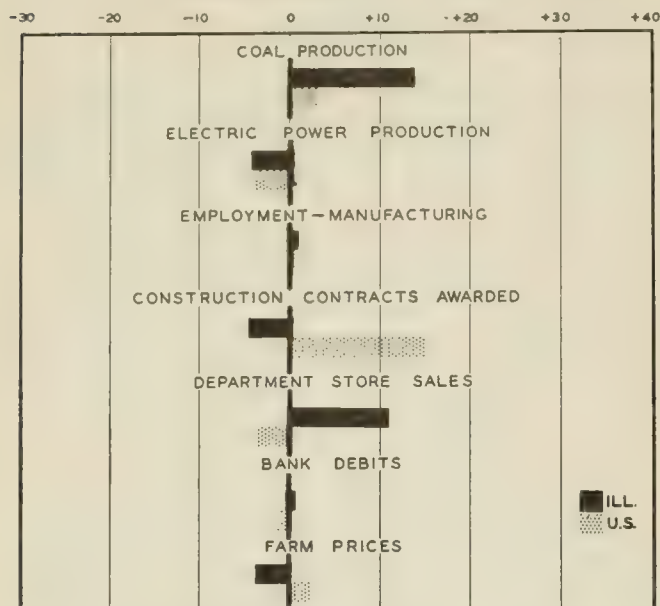
In this manner, the Chicago Board of Trade plays an essential role in our economic system. With the gradual expansion of agricultural markets and a trend toward an even more rapidly increasing farm output, the future role of the Exchange seems well established and is suggestive of increased responsibility, importance, and growth.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes August, 1954, to September, 1954



## ILLINOIS BUSINESS INDEXES

Item	September 1954 (1947-49 = 100)	Percentage Change from	
		August 1954	Sept. 1953
Electric power <sup>1</sup> .....	174.8	- 4.2	+ 5.8
Coal production <sup>2</sup> .....	73.9	+13.9	- 3.3
Employment—manufacturing <sup>3</sup> ..	101.8	+ 0.9	- 9.5
Weekly earnings—manufacturing	132.5 <sup>a</sup>	+ 0.2	- 0.6
Dept. store sales in Chicago <sup>4</sup> ...	107.0 <sup>b</sup>	0.0	+ 4.9
Consumer prices in Chicago <sup>5</sup> ....	117.4	- 0.3	+ 0.7
Construction contracts awarded <sup>6</sup>	210.0	- 4.7	+26.2
Bank debits <sup>7</sup> .....	140.9	+ 0.3	- 2.1
Farm prices <sup>8</sup> .....	96.2	- 3.5	- 8.2
Life insurance sales (ordinary) <sup>9</sup> ..	155.0	+ 1.6	+11.0
Petroleum production <sup>10</sup> .....	100.5	- 2.7	+12.3

<sup>1</sup> Federal Power Commission; <sup>2</sup> Illinois Department of Mines; <sup>3</sup> Illinois Department of Labor; <sup>4</sup> Federal Reserve Bank, 7th District; <sup>5</sup> U. S. Bureau of Labor Statistics; <sup>6</sup> F. W. Dodge Corporation; <sup>7</sup> Federal Reserve Board; <sup>8</sup> Illinois Crop Reports; <sup>9</sup> Life Insurance Agency Management Association; <sup>10</sup> Illinois Geological Survey.  
<sup>a</sup> August data; comparisons relate to July, 1954, and August, 1953.  
<sup>b</sup> Seasonally adjusted.

## UNITED STATES MONTHLY INDEXES

Item	September 1954	Percentage Change from	
		August 1954	Sept. 1953
	Annual rate in billion \$		
Personal income <sup>1</sup> .....	287.5 <sup>a</sup>	+ 0.7	+ 0.
Manufacturing <sup>1</sup> .....			
Sales.....	284.4 <sup>a</sup>	+ 0.9	- 4.8
Inventories.....	43.6 <sup>a, b</sup>	- 0.7	- 6.2
New construction activity <sup>1</sup>			
Private residential.....	15.6	+ 0.6	+18.6
Private nonresidential.....	13.7	- 1.2	+ 3.3
Total public.....	14.1	+ 0.5	+ 1.5
Foreign trade <sup>1</sup>			
Merchandise exports.....	13.8 <sup>c</sup>	-10.9	- 3.1
Merchandise imports.....	9.9 <sup>c</sup>	+ 0.4	- 1.8
Excess of exports.....	3.9 <sup>c</sup>	-30.6	- 6.0
Consumer credit outstanding <sup>2</sup>			
Total credit.....	28.0 <sup>b</sup>	+ 0.3	+ 0.1
Installment credit.....	21.3 <sup>b</sup>	+ 0.1	- 0.0
Business loans <sup>2</sup> .....	21.0 <sup>b</sup>	+ 1.2	- 9.0
Cash farm income <sup>3</sup> .....	36.0	+16.8	- 6.0
	Indexes (1947-49 = 100)		
Industrial production <sup>2</sup>			
Combined index.....	124 <sup>a</sup>	0.0	- 6.8
Durable manufactures.....	135 <sup>a</sup>	0.0	-11.2
Nondurable manufactures.....	116 <sup>a</sup>	+ 0.9	- 0.9
Minerals.....	109 <sup>a</sup>	0.0	- 7.6
Manufacturing employment <sup>4</sup>			
Production workers.....	100 <sup>a</sup>	+ 0.2	-10.6
Factory worker earnings <sup>4</sup>			
Average hours worked.....	99	0.0	- 0.5
Average hourly earnings.....	136	+ 1.1	+ 1.1
Average weekly earnings.....	136	+ 1.1	+ 0.6
Construction contracts awarded <sup>5</sup>	237	+15.4	+ 4.2
Department store sales <sup>2</sup> .....	108 <sup>a</sup>	- 3.6	+ 0.9
Consumers' price index <sup>4</sup> .....	115	- 0.3	- 0.4
Wholesale prices <sup>4</sup>			
All commodities.....	110	- 0.5	- 0.9
Farm products.....	94	- 2.3	- 4.6
Foods.....	106	- 0.8	- 1.0
Other.....	114	0.0	- 0.3
Farm prices <sup>3</sup>			
Received by farmers.....	91	- 2.0	- 4.3
Paid by farmers.....	112	- 0.7	+ 1.1
Parity ratio.....	88 <sup>d</sup>	- 1.1	- 5.4

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for August, 1954; comparisons relate to July, 1954, and August, 1953.  
<sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1954					1953
	Oct. 23	Oct. 16	Oct. 9	Oct. 2	Sept. 25	Oct. 24
<b>Production:</b>						
Bituminous coal (daily avg.).....thous. of short tons..	1,481	1,382	1,381	1,332	1,356	1,543
Electric power by utilities.....mil. of kw-hr.....	9,033	9,117	9,193	9,158	9,072	8,306
Motor vehicles (Wards).....number in thous.....	59.3	57.4	79.1	81.0	69.9	142.7
Petroleum (daily avg.).....thous. bbl.....	6,078	6,100	6,057	6,050	6,089	6,130
Steel.....1947-49 = 100.....	110.1	108.0	105.3	104.5	101.9	133.3
Freight carloadings.....thous. of cars.....	746	721	703	722	710	804
Department store sales.....1947-49 = 100.....	123	119	118	110	117	113
<b>Commodity prices, wholesale:</b>						
All commodities.....1947-49 = 100.....	109.4	109.7	109.6	109.7	109.9	110.2
Other than farm products and foods.....1947-49 = 100.....	114.6	114.6	114.6	114.5	114.4	114.6
22 commodities.....1947-49 = 100.....	90.4	90.3	90.8	90.4	90.7	87.1
<b>Finance:</b>						
Business loans.....mil. of dol.....	21,126	21,195	21,102	21,015	21,005	23,112
Failures, industrial and commercial.....number.....	229	152	230	192	212	185

Source: Survey of Current Business, Weekly Supplements.



# RECENT ECONOMIC CHANGES

## Unemployment Down

Unemployment in October declined by 358,000 to 2.7 million, its lowest level since the start of the year. However, there was virtually no change in the number of employed workers because of a contraction of the labor force largely brought about by an exodus of farm women and children from the labor force as the harvest period neared completion.

The decline in farm employment was offset by increased nonagricultural employment. This rose by about 300,000 in October to 54.9 million, one of its highest levels since last December. Census data in thousands of workers are as follows:

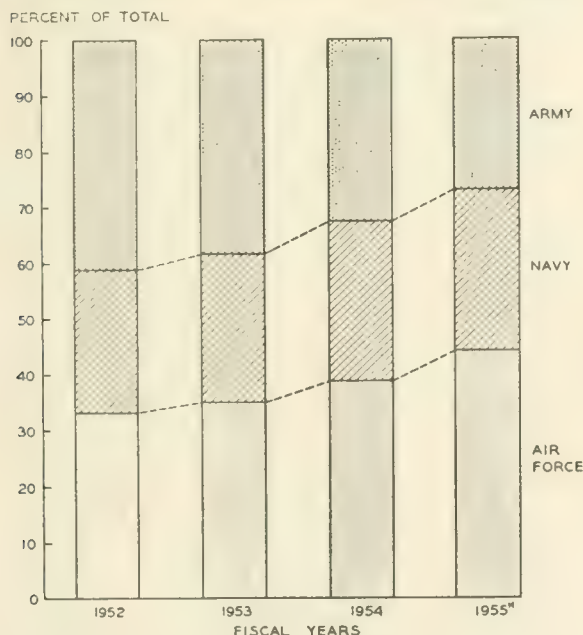
	October 1954	September 1954	October 1953
Civilian labor force.....	64,882	65,243	63,543
Employment.....	62,141	62,144	62,242
Agricultural.....	7,239	7,527	7,159
Nonagricultural.....	54,902	54,617	55,083
Unemployment.....	2,741	3,099	1,301

## Defense Outlays Lower

Department of Defense expenditures for procurement and construction in the fiscal year ending next June are expected to total about \$38 billion. This is \$5 billion below fiscal 1954 and \$9 billion below 1953, the post-Korean peak year. Despite the decline of nearly a fifth from 1953, defense expenditures in the current fiscal year will be nearly double those in fiscal 1951, when the Korean remobilization began.

Placing of new orders for military supplies came to a virtual halt about a year ago and remained fairly low through the second quarter of 1954. However, new contracts have been let in increasing volume in the past several months. The Defense Department plans to place \$16 billion to \$18 billion in new orders before the end of the fiscal year.

## DEPARTMENT OF DEFENSE EXPENDITURES



\* Estimated.

Source: U. S. Department of Defense.

As shown by the accompanying chart, the largest share of defense expenditures during fiscal year 1955 will be for Air Force procurement and construction. In fact, since fiscal 1952 the Army and the Air Force have about traded places in their relative importance to total defense spending. Three years ago 41 percent of total expenditures were made by the Army compared with 33 percent by the Air Force. In the current fiscal year Army expenditures account for only 26 percent of the expected total compared with 44 percent for the Air Force. The Navy has also gained in relative importance as expenditures moved up from 26 percent three years ago to 29 percent of the total this year.

## Machine Tool Orders Up

The machine tool picture brightened in September, as new orders received by the industry increased 21 percent to \$53.1 million. Except for June, this represented the largest volume of new business placed in nearly a year.

Shipments also increased in September to 213.6 percent of the 1947-49 average, up 5 percent from August. As a result of the greater increase in new orders, backlogs remained at the August level of 3.2 months' work at the current operating rate. September marks one of the few months that backlogs have not declined since the post-Korean high of almost two years' work in September of 1951.

## Foreign Grants and Credits Decline

United States net grants and loans to foreign countries totaled \$5.2 billion in fiscal 1954, about 20 percent less than in the previous fiscal year. Transfers of military supplies and services accounted for \$3.5 billion of the 1954 total with shipments in the June quarter amounting to over \$1 billion, the result of stepped up assistance to Indo-China. Nonmilitary transfers, which include relief, development, technical assistance, and all cash transfers except contributions to the unilateral construction program of NATO, totaled \$1.6 billion for the fiscal year, a postwar low.

For the first time since before World War II, net transfers of nonmilitary items to Western Europe (\$709 million) were less than those to other areas (\$940 million). This was mainly the result of increased grants to Pakistan and Iran and loans to Brazil and Japan. Shipments to Asia and the Pacific more than doubled in the second half of the fiscal year.

Since the end of World War II the United States has made available over \$50 billion (including \$3.4 billion to the International Monetary Fund and the International Bank) to assist other countries. About half of this total was transferred prior to the outbreak of hostilities in Korea with only 5 percent of pre-Korean assistance in the form of military aid. Since Korea more than half of total net grants and credits have been for military aid and the amount given for other than military aid has declined each successive year.

## Business Failures Decline

Fewer businesses went bankrupt in September than in any other month of this year. Total failures dropped 10 percent to 819 in September, but were almost a fifth higher than in September of last year when the year-long recession got under way.





# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Eggs Electronic

A machine that can size, sort, shell-protect, count, weigh, and package eggs is a recent product of the Food Machinery and Chemical Corporation, San Jose, California. The machine, an electro-mechanical device, remembers the weight and quality of each egg and drops it in the proper carton. After each carton is full, it is automatically closed and dated. It is expected that one inspector can process up to 57 cases, containing 30 dozen eggs, a day with the use of this machine, whereas under present methods that average is about 25 cases.

The manufacturer plans to lease the machines on a per-case-of-eggs-processed basis rather than sell them. The rentals will be on a sliding scale, with per-case rent decreasing as the number of cases processed increases.

### Pop Pills

The era of taking pills instead of eating a whole meal is getting closer. The latest development is a pill for making soda pop. The product is called Pop Drops and is available in root beer and fruit flavors. One tablet will flavor and carbonate an 8-ounce glass of water.

The pills were invented by Dr. Robert Bouthilet, a chemist, and are marketed by the Pop-Drop Beverage Company of St. Paul, Minnesota. A bottle of the tablets retails at 29 cents.

### Consumer Behavior

Recently published by the New York University Press is a book on the buying habits of the American consumer. *Consumer Behavior* is a collection of articles by leading economists, sociologists, and psychologists, representing talks given at the first two annual conferences of the Committee for Research on Consumer Attitudes and Behavior. Among the topics are "The Consumer in the New Suburbia," "The Choices Consumers Make," and "The Autonomy of the Consumer." The price of the volume is \$4.00.

### Whither the Weather

The Whiting Corporation of Harvey, Illinois, is revolutionizing the New York International Airport. By the first of next year some passengers will alight from the plane into the terminal without ever being hit by a snowy blast or a drop of rain. The "Loadair," a flat platform on tracks, will bring the plane from the runway to the terminal dock so passengers and baggage can be unloaded directly into the building. It is hoped that this system will allow for speedier handling of baggage and that eventually it will be possible to service the planes directly from fixed equipment. This might dispense with most of the mobile equipment now on the fields.

### Mechanical Payrolls

An accountant and former revenue agent has turned his inventive talents toward the problems of computing payrolls. The result is a machine reported to give greater speed and accuracy at lower costs.

Harry A. Wylie of the Wylie-Smith Corporation of San Francisco is the inventor. He has incorporated the special charts for computing the deductions of withholding tax, state unemployment insurance, and Social

Security on 20-foot rolls that rotate inside the machine at the turn of a knob. By knowing the number of hours worked, the pay rate, and the number of dependents, a series of manipulations of the knobs will give the operator the gross pay, deductions, and net pay.

The machine has only six moving parts, and it is about the size and shape of an adding machine. According to Mr. Wylie, 30 rolls will make the machine adaptable to any payroll situation in the United States. They will handle persons having as many as eight dependents and making as much as \$200 a week or \$1,000 per month.

### Getting Cold Feet?

Christmas is bringing its usual crop of new and different products aimed at the "man who has everything." The latest in the Sears catalog are electric socks, designed to keep you warm in any climate. The battery is attached to the belt, and wires connected to the tops of the socks can be plugged in whenever the wearer's feet become cold. The socks sell for \$9.95 a pair.

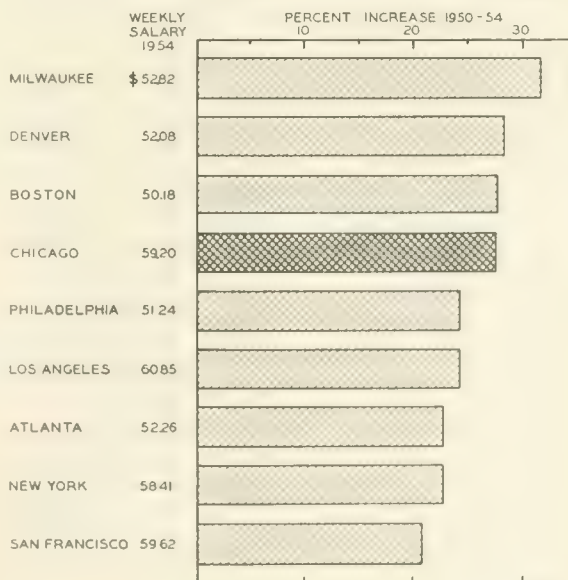
### Salaries of Women Office Workers

The recent publication by the Bureau of Labor Statistics of an index of average salaries for women office workers in nine major cities provides employers and office workers alike with standards of comparison for their own changes in salaries and wage rates.

The index is published for those nine cities believed to have the greatest concentration of office workers. As the chart indicates, the variation in salary growth among areas in the past five years is comparatively small. It is significant, however, that average salaries in 1954 in three of the four areas registering the smallest growth continued relatively high, whereas salaries in the three cities leading in rate of increase were still comparatively low.

Differences between salary increases granted in manufacturing industries and in other industries were slight, as were differences between office workers and other types of workers.

#### SALARIES OF WOMEN OFFICE WORKERS



Source: U. S. Department of Labor.

# THOSE UNEMPLOYMENT FIGURES<sup>1</sup>

STANLEY LEBERGOTT, U. S. Bureau of the Budget

The rise in unemployment during the fall and winter of last year has brought a flurry of discussion about the methods used to measure unemployment. In particular, this discussion has centered on the reliability of the monthly estimates of unemployment put out by the United States Bureau of the Census. Three questions stand out in such discussion. They are:

1. Are the figures any good?
2. What do they mean?
3. How can they be improved?

## The Figures

Questions on how good the Census figures are go back particularly to the end-of-1953 change in the Census sample that is used to collect data on labor force, employment, and unemployment. The data are obtained by a door-to-door survey of 25,000 households in all parts of the country, information being secured on the labor force status of all persons 14 years or older in the week including the 8th of the month (e.g., November 7-13). The group covered reflects the distribution of the entire labor force in the several regions as well as the different industries and occupations in which Americans work. This sample had been improved over the 1940-52 period but a major expansion was not possible until funds were made available in mid-1953. In the fall of 1953, therefore, a new sample was readied. The number of areas surveyed was to be tripled, rising from 68 to 230. The change was aimed at reducing the sampling errors significantly without increasing the current running costs. This was to be achieved by spreading the survey more widely throughout the country, particularly in open country and farm areas. The new survey covers 20 counties in Illinois, for example, where it had previously covered only four.

Not surprisingly a better sample gave different results in the transition period when two samples were both surveyed. Training new enumerators and difficulties in keeping an eye on enumerators in areas which were being closed out helped contribute to the differences. But for most readers of the *Illinois Business Review* these are technicalities, because both the new and the old samples led to the same two conclusions as to business conditions. (1) Both series indicated a clear, a sharp, and—for the postwar period—an almost unprecedented rate of increase in unemployment. (2) Both series indicated that unemployment was still at one of the low points in our history—for even in the month when they were most apart (January, 1954) one reported 4 percent of the labor force unemployed and one reported 5 percent unemployed. These facts are brought out in the accompanying chart.

Now unemployment is not at all the simplest thing in the world on which to run a statistical survey. And the fact that two substantially different samples gave much the same results tends to give considerable confidence in the reliability of these series.

On the other hand, improvements are still needed. The Bureau of the Census has recently begun a tighter check on the reliability with which enumerators do their work, and further improvements are certainly in order.

<sup>1</sup> The opinions expressed herein are personal and do not necessarily reflect those of the agency with which the writer is connected.

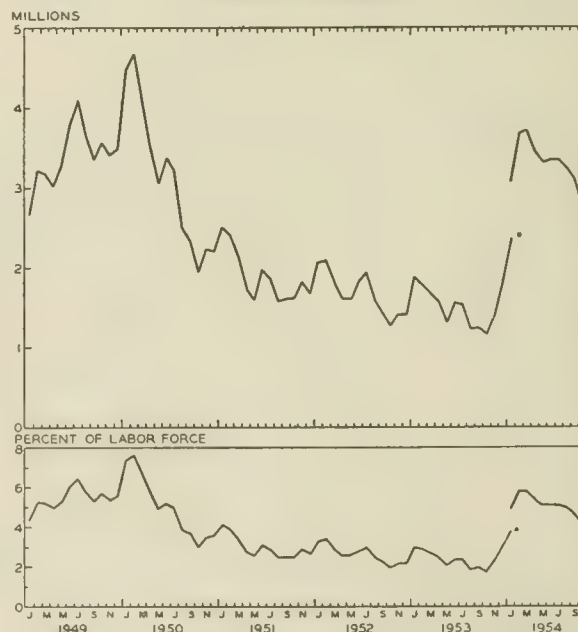
Moreover, getting data from individual families always raises problems—whether the survey is of brand preferences, a study of polio incidence, or a labor force survey. This is so because certain individual respondents will vary their reports depending on who questions them, the conditions under which the survey is made, even how they happen to feel at the moment, and so on.

The basic issue for those using the data is whether despite such minor variations it has made sense over the past 14 years. And experience does indicate that the Census survey reports on labor force, employment, and unemployment (a) provide detailed series that are consistent with each other; (b) make sense when compared with other key series such as production, unemployment insurance claims, and so on; and (c) are subject to much smaller revisions than are to be expected in other essential series such as inventories, business sales, and consumer credit.

## What They Mean

The Census unemployment series reports the trend in the number of persons who are totally unemployed for the particular survey week each month. They are persons who did not work for pay or profit in that week and were classed as looking for work. The Census total for unemployment does not allow for the changing number of persons on short work weeks, for example, nor does it try to measure the total number of man-hours of work which might have been worked if a special set of pay and working conditions were made available to each person in the population. Indeed there are a considerable number of changes in the definitions which might be considered, many of them currently being reviewed by a Federal interagency committee to see what improvements they might make in the definition.

## UNEMPLOYMENT



\* New series started January, 1954.  
Source: Bureau of the Census.



But the important point for analysis of unemployment trends is that most of the suggested changes would make little difference in the over-all trends in total unemployment. Add a group here, take out a group there, add in some women workers who might take a high paid part-time job, or arbitrarily exclude older workers on the premise that they should not be in the labor force—make any of a dozen changes which have been suggested and the resulting series would still move much the same as the present series. The reason, of course, is simple. The major group in unemployment at any time is composed of males aged 20-64 who are actively looking for work. This group would be included by any definition. Moreover, past experience indicates that the trend for other groups is closely correlated with that for this group.

There is a second, no less important, fact to emphasize. The meaning of the unemployment figures is only partly to be found in the mere total for unemployment—as critical as that is. What the unemployment figure really means can be understood only after the related detail in the labor force data is examined and trends in production and other data are compared.

A rise in unemployment means one thing if it is fairly well concentrated among adult males—quite another thing if it represents mostly youngsters entering the labor force in the summer. It means one thing if it is associated with a continuing decline in hours worked—and another if hours change little. It means one thing if it is accompanied by an increase in the number of women and older workers who leave the labor force—and another if the size of that group remains much the same. (Particularly valuable insights can be gotten by seeing where the unemployed came from: Are they persons who were unemployed last month? Are they new persons in the labor force? Did they have jobs last month? Such data are available in Census records but are not published each month, as they should be.) A wealth of data is made available monthly in the Census report on the labor force. By making full use of it, understanding of what a mere change in the total means, significant though that may be, can be increased immeasurably.

Then, too, the usefulness of unemployment data becomes much greater when they are related to other series. Check the changes in unemployment against changes in agricultural machinery employment as reported by the Bureau of Labor Statistics, in automobile production as reported by the Federal Reserve Board, or in retail sales as reported by the Census Bureau and a clearer idea is obtained of why unemployment is changing, and by how much unemployment is rising (or not rising) in response to certain major economic events. By relating the change in total unemployment to the data on insured unemployment in particular areas, more is learned about where unemployment is accumulating. While the unemployment figure means a good deal by itself, therefore, it means considerably more when it is compared with changes in labor force components, in production, sales, and so on.

## How They May Be Improved

If unlimited amounts of money were available to spend on improving the unemployment series, a wide variety of changes could be suggested and would be useful. There are a few changes, however, for which the pay-out ratio would be rather high.

The first would be to get the facts on monthly changes in income and spending for families in the labor force—data which would be invaluable for policy and for marketing purposes. To what extent does a general decline

in spending result from declines in spending by the unemployed only? To what extent are even those who are still employed retrenching? Figures on spending gathered in connection with figures on the labor force status of families would be of decisive value in answering such a basic question. To what extent have the unemployed exhausted their unemployment benefits? Where the head of the family is unemployed, is family income nevertheless being maintained because other family members are working? Answers to these questions would be useful for policy purposes, for understanding present and forecasting future market trends.

A second change would be to make surveys monthly, rather than at quarterly intervals, on the group of persons who are partially unemployed, namely, persons going on short work weeks because work is slack or for other economic reasons. That group has been classed as employed since the survey began in 1940—yet there is some point in separating it for special classification. The number in this group is particularly sensitive to economic changes and is helpful in forecasting future trends in unemployment.

Less urgent, but of value to the business analyst, would be two other changes. The first would be to stop classifying as employed, and shift to the unemployed, those persons who have been laid off temporarily. If we are concerned with the onset of changes in the general level of business, this group should be included because it is particularly sensitive, measuring somewhat in advance the trends which show up in unemployment. If broad problems of welfare are concerned, this group certainly belongs with the unemployed. They fall within the present definitions of unemployment for they are seeking work (each in a particular job); and they will usually return to their respective jobs as soon as the jobs become available. The fact that they do feel they have a claim to a job is essential information which should be shown, so that we can distinguish among the unemployed those without a job and those on definite layoff.

A further desirable change in the Census reports on the labor force would provide estimated weekly figures on the percent change in the Census unemployment total from the previous monthly report. Policy decisions in government and business must be made from day to day on the basis of available facts. They cannot always be spaced out to the monthly intervals at which some of our statistics become available. Substantial use is therefore made of the weekly data on insured unemployment. Yet the ordinary business analyst cannot do the kind of job in adjusting these figures that must be done. Only the official agencies can do a full job of allowing for the fact that trends in the insured unemployed may not reflect the trend for all unemployed, allowing for exhaustion of benefits even among the insured, and allowing for necessary quirks in the administrative reporting of these figures.

Possibly, progress in this direction could be made by enlarging the present Census sample and obtaining reports on unemployment from a subsample at weekly intervals. The results will be rough, but they will be preferable to what most individual analysts can and do attempt on their own initiative.

Whether or not these changes are made it is well to remember, in summary, that our unemployment estimates are certainly among the most essential and reliable statistical series that we have for charting the course of the economy.

# LOCAL ILLINOIS DEVELOPMENTS

With the exception of seasonal movements, the Illinois economy in September remained on a fairly even keel. Only two indicators changed more than 5 percent during the month of September, and both movements were attributed to seasonal influences. Coal production jumped 13.9 percent above August, though still below the corresponding 1953 month, and department store sales in Illinois surged upward by 11 percent. Department store sales were slightly above year-ago levels in the State as a whole, although some areas reported declines.

Business loans and steel production were up during September, but well below 1953. Petroleum production declined in September for the second month in a row, but it continued at a rate substantially higher than a year ago. Construction contracts awarded were also off from August, but were more than 25 percent higher than in September, 1953. Farm prices were the only indicator to register appreciably below both last month and year-ago levels.

## Financing Elementary Education

Since 1946 the number of pupils in elementary schools in the United States has increased by almost one-third. The pressure in Illinois schools has been as great as elsewhere, resulting in rising needs for funds for schools and teachers.

The chart below gives the authorized rate of taxation on real property at assessed value—which is generally substantially less than real value—for the educational fund in 363 school districts studied by the Illinois Education Association. It shows that in more than two-thirds of the districts studied not more than a dollar out of every hundred dollars of taxable property went toward the operating expenses of public schools. It is significant to note that many of the districts where the rate is one

dollar or more are unit districts, supporting high schools as well as elementary schools.

The reluctance of many local governments to increase the tax rates for educational funds has had two major results of economic importance. One is the lack of relative growth in teachers' salaries, which constitute over half of the school budget. This has deterred many capable people from entering the field, further causing the curtailment of special services the schools were once able to perform. In some schools the restricted services have reached into such classes as physical education, art, and music as well as into the fields of nursing and counseling. The other result of lack of funds locally is increased dependence on State and Federal grants, which many people fear will lead eventually to State rather than local control of the schools.

## State Farm Census

Early in November almost 1,000 census takers literally took to the fields to begin the Illinois farm census for 1954. This study will be part of the 1954 Census of Agriculture for the United States.

The final reports will give information for states, counties, and economic areas on land ownership and tenure, land values and farm size, equipment on farms, and other matters relating to farming. Plantings, harvests, and sales will be studied for crops, and values of animals on farms and livestock and products sold will also be enumerated. Reports will be made on farm finances as well.

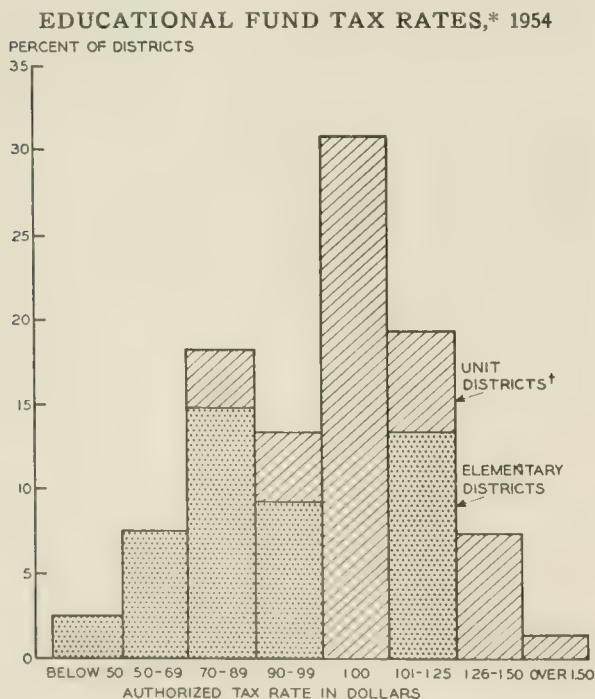
The 1950 farm census listed 195,268 farms in the State. The Census Bureau expects that the number will be down now both because of the trend toward larger farms and because of the urbanization of much farm land.

## Water, Water Everywhere?

It is some small comfort to know that water problems are not confined to Illinois. The comfort lies in the concern and study that are being given to conservation by influential and informed persons throughout the nation. Consumption has risen to the point where each person consumes about 100 gallons a day domestically in addition to the 80 billion gallons used by industry, the 80 billion gallons used by agriculture, and the trillion gallons used each day to produce electric power throughout the nation.

Problems of water distribution were the main topic of discussion at the recent convention of the Illinois Municipal League. According to Dr. A. M. Buswell, chief of the Illinois State Water Survey, the problem is not the lack of a basic water supply, but rather the failure of local governmental units to plan for the recent large increases in consumption, both domestically and, more importantly, in business. Partial solution for the problem was given by Frank M. Pfeifer, legislative counsel for the League, and Alex Van Praag, a Decatur engineer, who urged town mayors to review water rates carefully to see if they are meeting current costs and to see if rates can be adjusted so that the town governments will be able to make the replacements and additions to equipment that the increasing consumption entails.

Recent meetings of the Illinois Agricultural Association were concerned with drought conditions and how to meet the increasing problems. A special conference was held on water use and small watershed programs. Current legislation and proposals for future State water legislation were reviewed.





## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

September, 1954

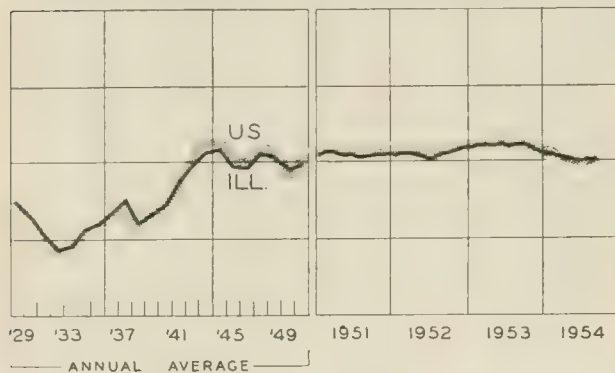
		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>5</sup> (000,000)	Postal Receipts <sup>6</sup> (000)
<b>ILLINOIS</b>		<b>\$29,737<sup>a</sup></b>	<b>928,980<sup>a</sup></b>	<b>\$396,689<sup>a</sup></b>		<b>\$12,320<sup>a</sup></b>	<b>\$14,296<sup>a</sup></b>
Percentage Change from...	{ Aug., 1954...	+2.1	+2.1	-18.7	+11	+0.3	+11.3
	{ Sept., 1953...	+21.0	-0.3	-22.7	+3	-2.1	+4.4
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b>		<b>\$21,635</b>	<b>711,626</b>	<b>\$265,532</b>		<b>\$11,222</b>	<b>\$12,661</b>
Percentage Change from...	{ Aug., 1954...	-0.3	+3.3	-24.8	+12	-0.4	+12.5
	{ Sept., 1953...	+28.0	-1.2	-26.7	+4	-2.3	+4.2
<b>Aurora</b>		<b>\$ 676</b>	<b>n.a.</b>	<b>\$ 6,797</b>		<b>\$ 49</b>	<b>\$ 116</b>
Percentage Change from...	{ Aug., 1954...	+18.2		-2.4	+3	+10.1	+10.4
	{ Sept., 1953...	+271.4		-5.7	-5	+3.4	+18.5
<b>Elgin</b>		<b>\$ 289</b>	<b>n.a.</b>	<b>\$ 5,635</b>		<b>\$ 32</b>	<b>\$ 114</b>
Percentage Change from...	{ Aug., 1954...	-54.4		+9.8	+15	+8.3	+22.5
	{ Sept., 1953...	-36.3		+1.0	+8	+5.9	+24.0
<b>Joliet</b>		<b>\$ 319</b>	<b>n.a.</b>	<b>\$ 9,825</b>		<b>\$ 63</b>	<b>\$ 86</b>
Percentage Change from...	{ Aug., 1954...	-41.3		-6.8	+7	+9.0	+6.8
	{ Sept., 1953...	+5.6		-13.4	-2	+1.0	+11.3
<b>Kankakee</b>		<b>\$ 204</b>	<b>n.a.</b>	<b>\$ 5,050</b>		<b>n.a.</b>	<b>\$ 33</b>
Percentage Change from...	{ Aug., 1954...	+46.8		+0.2	n.a.		-7.6
	{ Sept., 1953...	-7.3		-5.5			+5.7
<b>Rock Island-Moline</b>		<b>\$1,011</b>	<b>19,191</b>	<b>\$ 8,728</b>		<b>\$ 75<sup>c</sup></b>	<b>\$ 134</b>
Percentage Change from...	{ Aug., 1954...	+14.5	+6.8	-5.8	n.a.	-0.2	-17.4
	{ Sept., 1953...	+7.1	+5.6	-6.8		-3.6	-16.0
<b>Rockford</b>		<b>\$1,600</b>	<b>28,728</b>	<b>\$14,510</b>		<b>\$ 135</b>	<b>\$ 165</b>
Percentage Change from...	{ Aug., 1954...	+1.2	-0.8	-4.6	+0 <sup>c</sup>	+5.0	-0.1
	{ Sept., 1953...	+74.1	-8.1	-23.2	-11 <sup>c</sup>	+3.4	+10.8
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b>		<b>\$ 520</b>	<b>6,530</b>	<b>\$ 4,991</b>		<b>\$ 59</b>	<b>\$ 71</b>
Percentage Change from...	{ Aug., 1954...	+14.0	-1.0	-1.8	n.a.	+12.7	+0.4
	{ Sept., 1953...	+164.0	-2.9	-26.4		+0.1	-25.5
<b>Champaign-Urbana</b>		<b>\$ 209</b>	<b>8,267</b>	<b>\$ 6,371</b>		<b>\$ 53</b>	<b>\$ 88</b>
Percentage Change from...	{ Aug., 1954...	+16.1	+1.4	-1.4	n.a.	+18.6	+21.2
	{ Sept., 1953...	-35.5	+3.4	-3.1		-0.8	+15.4
<b>Danville</b>		<b>\$ 299</b>	<b>9,650</b>	<b>\$ 5,582</b>		<b>\$ 47</b>	<b>\$ 63</b>
Percentage Change from...	{ Aug., 1954...	+298.7	+6.5	+2.2	5	+14.7	+17.4
	{ Sept., 1953...	+309.6	+11.4	-7.5	-6	+18.9	+27.0
<b>Decatur</b>		<b>\$ 535</b>	<b>23,431</b>	<b>\$10,274</b>		<b>\$ 100</b>	<b>\$ 106</b>
Percentage Change from...	{ Aug., 1954...	+10.8	-4.7	+2.7	+3 <sup>c</sup>	+22.9	-3.4
	{ Sept., 1953...	+27.4	+5.2	-37.7	-1 <sup>c</sup>	-0.5	+8.6
<b>Galesburg</b>		<b>\$ 374</b>	<b>6,771</b>	<b>\$ 3,904</b>		<b>n.a.</b>	<b>\$ 36</b>
Percentage Change from...	{ Aug., 1954...	-10.1	+1.2	-2.5	n.a.		+14.5
	{ Sept., 1953...	-49.9	-0.1	-3.3			+5.5
<b>Peoria</b>		<b>\$ 607</b>	<b>46,623<sup>c</sup></b>	<b>\$15,168</b>		<b>\$ 187</b>	<b>\$ 208</b>
Percentage Change from...	{ Aug., 1954...	+20.9	+1.3	-0.5	+5 <sup>c</sup>	+4.5	+1.0
	{ Sept., 1953...	-49.3	+2.2	-11.0	-2 <sup>c</sup>	-5.2	+0.5
<b>Quincy</b>		<b>\$ 497</b>	<b>8,184</b>	<b>\$ 4,512</b>		<b>\$ 35</b>	<b>\$ 62</b>
Percentage Change from...	{ Aug., 1954...	+165.8	-11.0	-1.4	-1	+1.8	-11.9
	{ Sept., 1953...	+214.6	+11.9	-2.0	+1	+1.1	+6.3
<b>Springfield</b>		<b>\$ 246</b>	<b>28,561<sup>c</sup></b>	<b>\$12,045</b>		<b>\$ 99</b>	<b>\$ 209</b>
Percentage Change from...	{ Aug., 1954...	-3.9	-6.7	-7.3	n.a.	+25.0	+2.9
	{ Sept., 1953...	-57.4	+9.3	-3.3		+0.8	+3.1
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b>		<b>\$ 114</b>	<b>12,754</b>	<b>\$ 8,907</b>		<b>\$ 130</b>	<b>\$ 78</b>
Percentage Change from...	{ Aug., 1954...	-8.1	-6.0	-3.8	n.a.	+3.6	+20.8
	{ Sept., 1953...	+37.3	-8.7	-7.0		-2.0	+36.4
<b>Alton</b>		<b>\$ 538</b>	<b>12,142</b>	<b>\$ 4,486</b>		<b>\$ 34</b>	<b>\$ 29</b>
Percentage Change from...	{ Aug., 1954...	+367.8	-0.9	-6.0	n.a.	+0.3	+9.8
	{ Sept., 1953...	+263.5	+3.6	-12.1		-5.3	+9.2
<b>Belleville</b>		<b>\$ 64</b>	<b>6,519</b>	<b>\$ 4,372</b>		<b>n.a.</b>	<b>\$ 40</b>
Percentage Change from...	{ Aug., 1954...	-77.5	-2.3	-4.2	n.a.		-6.1
	{ Sept., 1953...	-29.7	+19.4	-2.9			+15.5

<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for August, 1954, the most recent available. Comparisons relate to July, 1954, and August, 1953.<sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

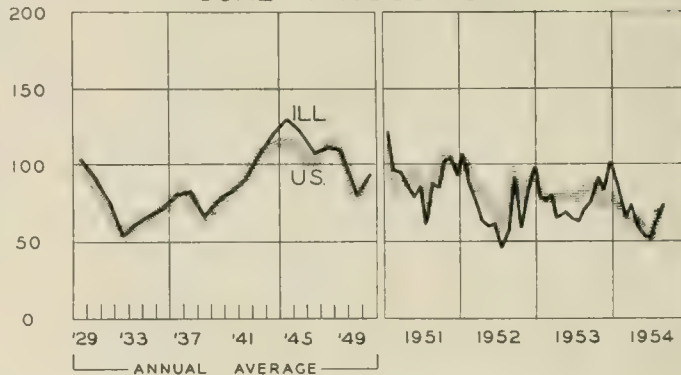
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

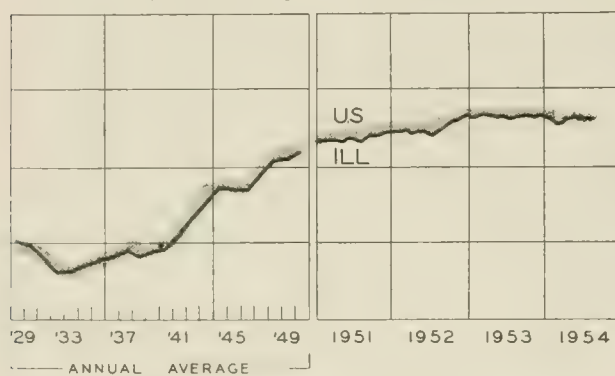
## EMPLOYMENT - MANUFACTURING



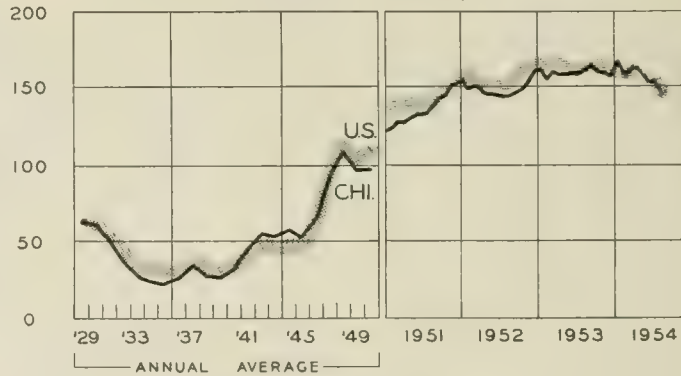
## COAL PRODUCTION



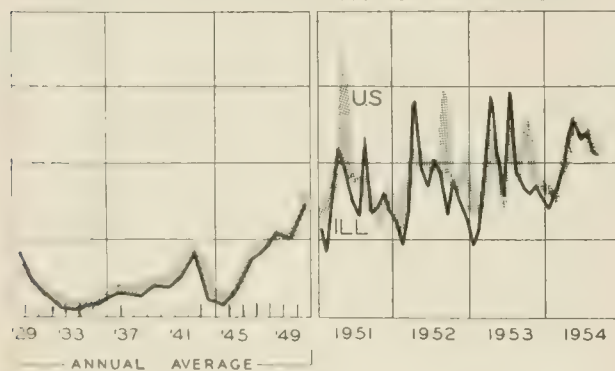
## AVG. WKLY. EARNINGS — MANUFACTURING



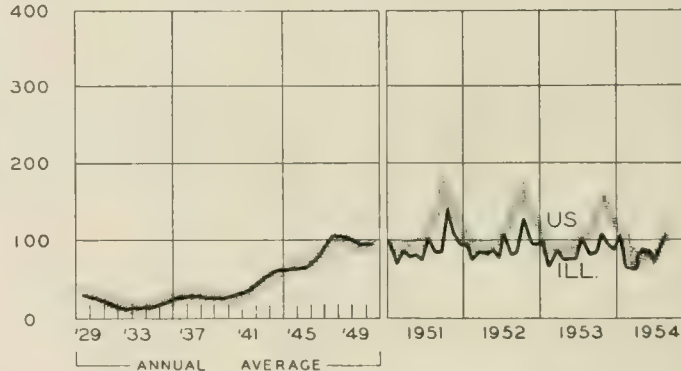
## BUSINESS LOANS



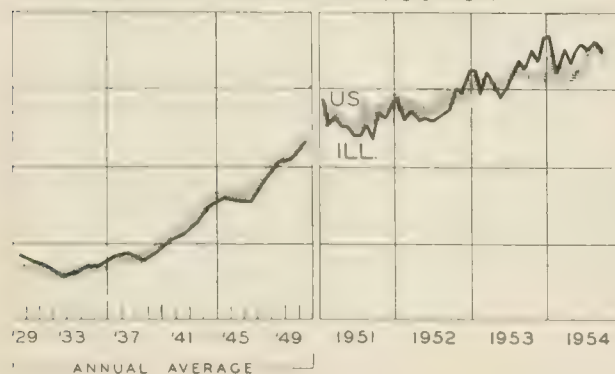
## CONSTRUCTION CONTRACTS AWARDED



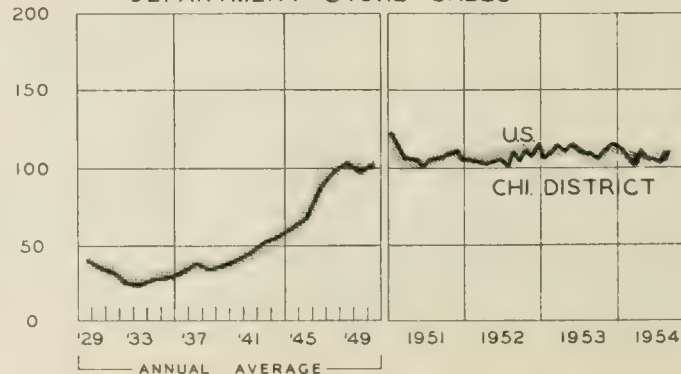
## CASH FARM INCOME



## ELECTRIC POWER PRODUCTION



## DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME XI

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## HIGHLIGHTS OF BUSINESS IN NOVEMBER

Business activity continued to improve during November and early December. Steel production was up to 81.5 percent of capacity, and in some places facilities were operating at capacity. Demand was especially high for cold rolled sheets, used in making automobiles and appliances, but the order situation was improving for other steel products as well. Automobile output was boosted from 98,000 units the first week of November to more than 142,000 units the first week of December.

In line with this pickup in activity, nonagricultural employment rose to a high for the year, chiefly as a result of gains in auto factory work and in seasonal retail trade hirings. However, total employment dropped 400,000 to 61.7 million, as a result of reduced farm activity, and unemployment rose slightly to 2.9 million.

Expenditures for new plant and equipment in the first quarter of 1955 are expected to aggregate \$26 billion at a seasonally adjusted annual rate. This would be slightly less than capital outlays in the current quarter.

### Another Construction Record in 1955

New construction in 1955 is expected to reach \$39.5 billion, 7 percent above 1954's record-breaking volume, according to a recent joint estimate by the Department of Commerce and the Department of Labor. It is expected that both private and public expenditures for construction will reach new highs next year, rising 7 percent and 5 percent, respectively, over 1954 levels. These estimates assume maintenance of disposable incomes and general economic activity at current high levels, stable construction costs, and sufficient capital funds to support a large volume of building.

It is anticipated that the largest increase in private construction will occur in the nonfarm residential category, which is estimated at one-eighth higher than the 1954 total. New records are also indicated for nonresidential classifications.

The largest of the few declines foreseen is anticipated in industrial building. Lower outlays for defense plant expansion will be partly offset by increases for nonferrous metals, chemicals, steel, and food processing.

Public construction will share next year's expected increase, mainly on the strength of greater spending by state and local units. Highway and school building particularly are expected to rise sharply, by as much as 15 or 20 percent.

### Stock Market Still on the Way Up

The boom on the stock market which began in early November was still under way in December. In this rise, the Dow-Jones index of industrials rose from 354 at the end of October to 394 on December 7. Rails were also up substantially, whereas utilities were comparatively steady. Much of the current buying is being done by institutional investors, but the general public is also staying in the market and interest has spread over many issues rather than being concentrated on a few. Contributing strongly to the present bull market are the business upturn of recent months and the prospects for further improvement in 1955.

Comparisons with 1929 are widespread, with most of the attention concentrated on the Dow-Jones industrial averages. It is well to keep in mind, however, that the make-up of the Dow-Jones list of 30 industrials has changed considerably in the past 25 years, with some companies dropped, others added, and still others undergoing major alterations through mergers and/or diversification. This index is therefore useful chiefly in indicating the direction and magnitude of short-term changes (and then only in the higher-grade stocks); its value for long-term comparisons is limited, at best.

### Further Drop in Farm Income Foreseen

The Department of Agriculture estimates that net farm income for 1954 will be approximately \$12.5 billion. The 6 percent decline from farmers' 1953 income is a result of lower receipts both for livestock and for crops. For livestock, marketing increases have been more than offset by lower prices; in the case of crops, marketings and prices both declined. Production expenses have also been off somewhat, but considerably less than income.

A continuation of the slump through 1955 is foreseen, with net farm income slipping another 4 percent to \$12 billion. Prices received for farm products are expected to stabilize close to current levels, but crop marketing declines are anticipated as a result of wheat and cotton acreage restrictions and small sales of corn from the drouth-cut 1954 crop. Relatively stable marketings and prices of livestock are expected to keep income from that source near this year's level. Lower expenses are also anticipated, but the reduction is not likely to be large enough to offset cuts in gross receipts.

# ILLINOIS BUSINESS REVIEW

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## What Do Expectations Show?

This is the time of year when Santa Claus is deluged with visits by children, fathers are bemused with thoughts of buying electric trains (for their children, of course), and businessmen are engulfed with predictions and expectations regarding business trends in the coming year. This matter of expectations is particularly beguiling because of the emphasis placed these days on their importance as possible indicators of business trends. It therefore seems most appropriate to discuss at this time what is known regarding businessmen's expectations as reported by various surveys, and how these expectations compare with what actually happens.

Do businessmen's expectations appear to influence business activity? How well do they foreshadow future business trends? What factors enter into expectations? Answers to questions such as these make considerably easier an evaluation of the current wave of forecasts.

### The Setting

The studies of businessmen's expectations that have been made reveal a number of interesting findings.

1. As a group, businessmen tend to be too pessimistic on upswings and too optimistic on declines in forecasting a few months ahead. In other words, their expectations on the average tend to underestimate the magnitude of actual changes.

2. Businessmen also tend to be conservative in their short-run outlook in that they seem to expect business to deviate very little from current levels. At the same time, however, if a particular trend continues for some time, it tends to be accepted and projected into the future, with the result that turning points are generally missed. The postwar record in this connection has been somewhat better than the prewar record.

3. In looking ahead for a year or so, there is a tendency to expect a downtrend after the first few months. This reaction may be somewhat similar to the response one gets in asking a coed how busy she will be during the next few weeks. For the first week or two, she may have a number of dates; beyond that the situation is indefinite. It might be noted that this does not hold so far as long-range expectations—5 years or more—are concerned (at least not for businessmen; for coeds it well may).

4. The long-range outlook is apparently strongly colored by current trends. If business is good at the

moment, there is a tendency to be optimistic toward the long run; and if business is poor, the tendency is in the other direction. This attitude is reflected in the phenomenon existing in past years of large capital expenditures being made in good times and sharply reduced expenditures in periods of low activity.

5. Businessmen tend to be more optimistic on the outlook for their own company than for the entire industry, and more optimistic on industry prospects than on those for the nation as a whole. In many ways, this is a peculiar phenomenon, though it has been observed many times in the postwar years. Undoubtedly it reflects to a large extent the lesser degree of knowledge people have in moving away from their own operations (and hence a natural inclination to treat such other things cautiously) as well as confidence in one's own abilities.

There is also the possibility, although this has not been fully investigated, that expectations may be highly unstable, that developments in the course of a year, or perhaps even in the course of a month, may lead to changes in one's future outlook a number of times during the period. If so, any forecasts based in whole or in part on expectations would clearly have to be very limited in scope.

## Which End Does the Wagging?

Do expectations lead business activity, or does activity appear to lead businessmen's expectations? Theoretically, the answer would seem to be the former, for if people have certain expectations, are they not likely to take such actions as would fulfill these expectations? Actually, however, with one or two notable exceptions, the answer appears to be the reverse—activity leads expectations.

The basic reason for this is that businessmen do not as a rule act on the basis of their expectations. Rather they rely more on the facts before them—current trends, finances, the inventory situation, and so on—and their decisions on the basis of such factors may bear little relation to their expectations. A new bit of evidence on this point has recently been published by *Business Week* (issue of November 27), showing little connection between expectations and capital expenditures plans for the following year. (In contrast to the situation with expectations, business plans are highly useful in forecasting.)

This belief is reinforced by the findings enumerated earlier as well as by findings that businessmen's expectations in the aggregate can generally be predicted in advance on the basis of recent trends in business activity. In other words, expectations concerning the trend of business in the next few months appear to be strongly influenced by current levels of activity and the direction of movement in the recent past rather than the trend of business being influenced by expectations.

All this does not mean that expectations may not exert some influence on business trends now and then. At times, expectations may well intensify business fluctuations, as when decisions to increase production are based in part on erroneous expectations just before a turning point in the cycle. At other times, however, it is conceivable that the effect may be the reverse; there is little evidence on this point as yet.

So far as forecasting on the basis of expectations is concerned, however, the highway sign "Caution: Rough road" is most applicable and is if anything an understatement. The sad fact is that it is easier to forecast what people will forecast than it is to forecast what will actually happen.

RF



### TINSEL, BAUBLES, AND BELLS

The origin of Christmas decorations and ornaments is not definitely recorded in history. It is associated with the Christmas tree, which is believed to have originated in the ceremonial use of the palm tree in the worship of the Egyptian goddess Isis. In northern climates, this association of the palm tree with the celebration of December 25 was modified by the substitution of a fir tree.

The first Christmas tree in America was erected at Trenton, New Jersey, in 1776 by Hessian soldiers, who brought the custom with them from their native Germany, where it had long been practiced. According to tradition, the first Christmas trees to be sold in this country were vended by Mark Carr, on Vesey Street, New York City, on Christmas Day, 1851.

During the nineteenth century, Christmas tree ornaments and decorations were mostly handmade, and were treasured from year to year. Christmas shoppers used to have to seek out decorations in store nooks and crannies, but the introduction of low-priced commercial products in the early 1920's resulted in an industry of ever-growing proportions. Today, no alert merchant would think of letting the Christmas season go by without featuring colorful, ornamental displays in prominent locations throughout his establishment. By the addition of Christmas decorations as standard retail store display equipment, an entirely new field was opened up offering business opportunities in the field of decorating and creating a keener sense of competition for the holiday trade.

#### Illinois Manufacturers

There are thousands of firms manufacturing Christmas decorations and ornaments. Some operate on a year-round or even seasonal basis with such decorations as their main activity. Perhaps most, however, manufacture Christmas items as a secondary line, and consequently their contribution to the over-all output of holiday merchandise is not very noticeable at first glance. Illinois has many firms of both types, along with a large number of distributors representing manufacturers from all over the world.

There are many manufacturers of wreaths, bells, balls, and other decorations in Chicago, such as Oscar Leistner, Inc., Brandau's, Nesbit Industries, Inc., and Glo-Brite Products. The Hamilton-Monroe Manufacturing Company and Weingartner Manufacturing Company are well known for their Christmas tree stands; the Chicago Printed String Company's paper specialties and ribbons are used far and wide; and the artificial snow of the U. S. Mica Company, located in Forest Park, is much in demand at Christmastime. Outside the Chicago area, the Biltwell Brush Company of Rockford has become known for its artificial Christmas trees and wreaths, with the former being one of the best selling items of their kind.

Chicago also has some of the leading display designers and manufacturers, such as Adler Jones and Arvey Corporation. Adler Jones started in Chicago in 1916 and today ranks among the foremost of its kind in the country. Its beautiful decorative Christmas creations are admired

everywhere and their authentic plastic plant reproductions are of nation-wide fame.

#### Effect of Electricity

This year is the 75th anniversary of Thomas A. Edison's invention of the first practical lamp. It is difficult to visualize the change that this item has brought about in the ideas on Christmas decoration. People have adopted the custom of beautifying their homes with decorative display lighting both indoors and outdoors, the latter comprising about 25 percent of the total Christmas lighting market.

The Glolite Corporation, manufacturers of Christmas lighting decorations and tree light sets, was formed during the early 1930's. This company, whose headquarters sales office is located in Chicago, has developed a multi-million dollar business with sales practically all over the world. Other manufacturers of decorative lighting products are the On-A-Lite Company of Peoria and the Lamp Department of General Electric located at Mattoon.

#### The Expanding Market

The Christmas decoration and ornament manufacturer works all year for one day. With him, the Christmas season is a twelve-month proposition. He is faced not only with the risk of financing a year's sales in advance but also with a single turnover of stock. In his ability to forecast the future market lies the secret of his success. If he makes a wrong guess on the market beforehand, he has no second chance to remedy his mistake. These risks are partly offset by (and to some extent are reflected in) the higher markups prevalent in the industry, so that the Christmas season, though one of the shortest selling periods of the year, has generally been profitable.

Outlets for Christmas decorations and ornaments include every conceivable type of dealer from variety and department stores to hardware stores and drugstores. The market includes nearly all of the 45 million households in America, which consume huge quantities of decorations and ornaments, with as many as 300 million Christmas lamps being sold in a single year.

Current trends point to even more decorative Christmas seasons in future years. The postwar homebuilding boom means a bigger and better market for Christmas products, as homeowners tend to be bigger customers. Higher birth rates and the increased rate of family formation mean more houses to light up and decorate, and more children to provide a basic reason for doing so. Other trends not to be overlooked are the increased use of advertising media, technological developments in manufacturing methods, and the introduction of new products each year, which, in all, tend to create spreading markets and greater commercialization of this season.

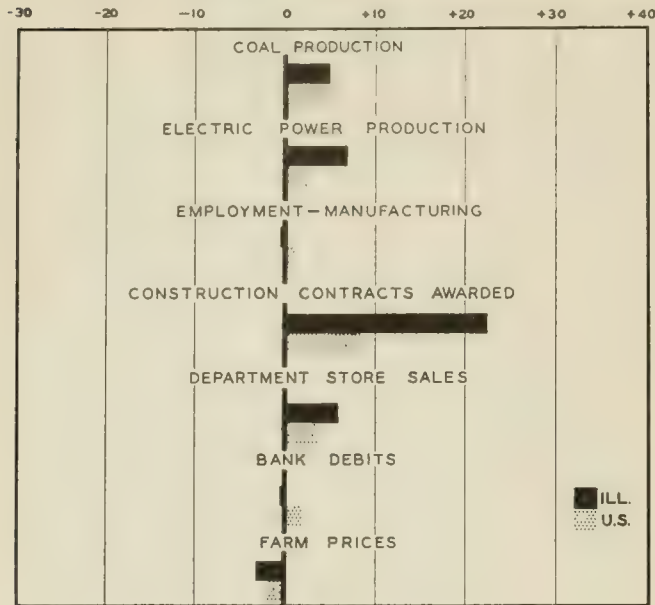
Thus, the atmosphere appears favorable for increased production and over-all expansion of Christmas decorations and ornaments. This is particularly true of the Middle West where a lucrative market awaits the further development of local industry.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes September, 1954, to October, 1954



## ILLINOIS BUSINESS INDEXES

Item	October 1954 (1947-49 = 100)	Percentage Change from	
		Sept. 1954	Oct. 1953
Electric power <sup>1</sup> .....	187.1	+ 7.0	+ 6.4
Coal production <sup>2</sup> .....	77.7	+ 5.1	-15.5
Employment—manufacturing <sup>3</sup> .....	101.4	- 0.4	- 8.6
Weekly earnings—manufacturing <sup>3</sup> .....	135.2 <sup>a</sup>	+ 2.0	+ 1.0
Dept. store sales in Chicago <sup>4</sup> .....	109.0 <sup>b</sup>	+ 1.9	+ 0.9
Consumer prices in Chicago <sup>5</sup> .....	117.1	- 0.3	0.0
Construction contracts awarded <sup>6</sup> .....	258.1	+22.9	+63.4
Bank debits <sup>7</sup> .....	140.5	- 0.4	- 4.4
Farm prices <sup>8</sup> .....	93.0	- 3.2	- 5.9
Life insurance sales (ordinary) <sup>9</sup> .....	158.9	+ 2.5	+ 6.0
Petroleum production <sup>10</sup> .....	105.7	+ 5.2	+14.7

<sup>1</sup> Federal Power Commission; <sup>2</sup> Illinois Department of Mines; <sup>3</sup> Illinois Department of Labor; <sup>4</sup> Federal Reserve Bank, 7th District; <sup>5</sup> U. S. Bureau of Labor Statistics; <sup>6</sup> F. W. Dodge Corporation; <sup>7</sup> Federal Reserve Board; <sup>8</sup> Illinois Crop Reports; <sup>9</sup> Life Insurance Agency Management Association; <sup>10</sup> Illinois Geological Survey.  
<sup>a</sup> September data; comparisons relate to August, 1954, and September, 1953. <sup>b</sup> Seasonally adjusted.

## UNITED STATES MONTHLY INDEXES

Item	October 1954	Percentage Change from	
		Sept. 1954	Oct. 1953
	Annual rate in billion \$		
Personal income <sup>1</sup> . . . . .	285.9 <sup>a</sup>	- 2.4	- 6.6
Manufacturing <sup>1</sup> . . . . .			
Sales . . . . .	280.8 <sup>a</sup>	- 0.8	- 6.4
Inventories . . . . .	43.8 <sup>a, b</sup>	+ 0.2	- 5.4
New construction activity <sup>1</sup> . . . . .			
Private residential . . . . .	15.7	0.0	+21.4
Private nonresidential . . . . .	13.1	- 3.6	+ 1.1
Total public . . . . .	13.2	- 5.8	+ 2.0
Foreign trade <sup>1</sup> . . . . .			
Merchandise exports . . . . .	13.3 <sup>c</sup>	- 4.0	-11.8
Merchandise imports . . . . .	9.4 <sup>c</sup>	- 5.3	-15.7
Excess of exports . . . . .	3.9 <sup>c</sup>	- 0.6	- 0.9
Consumer credit outstanding <sup>2</sup> . . . . .			
Total credit . . . . .	29.0 <sup>b</sup>	+ 0.4	+ 1.3
Installment credit . . . . .	22.0 <sup>b</sup>	+ 0.1	+ 0.9
Business loans <sup>2</sup> . . . . .	21.0 <sup>b</sup>	+ 0.1	- 9.7
Cash farm income <sup>3</sup> . . . . .	42.5	+12.2	- 8.9
	Indexes (1947-49 = 100)		
Industrial production <sup>2</sup> . . . . .			
Combined index . . . . .	125 <sup>a</sup>	+ 0.8	- 5.3
Durable manufactures . . . . .	138 <sup>a</sup>	+ 1.5	- 8.6
Nondurable manufactures . . . . .	116 <sup>a</sup>	+ 0.9	- 0.9
Minerals . . . . .	109 <sup>a</sup>	+ 0.9	- 4.4
Manufacturing employment <sup>4</sup> . . . . .			
Production workers . . . . .	101 <sup>a</sup>	+ 0.6	- 8.9
Factory worker earnings <sup>4</sup> . . . . .			
Average hours worked . . . . .	100	+ 0.5	- 1.0
Average hourly earnings . . . . .	136	0.0	+ 1.1
Average weekly earnings . . . . .	136	+ 0.5	+ 0.1
Construction contracts awarded <sup>5</sup> . . . . .	257	+ 8.2	+ 3.9
Department store sales <sup>5</sup> . . . . .	112 <sup>a</sup>	+ 3.7	+ 1.8
Consumers' price index <sup>4</sup> . . . . .	115	- 1.2	- 0.8
Wholesale prices <sup>4</sup> . . . . .			
All commodities . . . . .	110	- 0.3	- 0.5
Farm products . . . . .	93	- 0.5	- 2.3
Foods . . . . .	104	- 1.7	- 1.0
Other . . . . .	115	+ 0.1	- 0.1
Farm prices <sup>3</sup> . . . . .			
Received by farmers . . . . .	90	- 1.6	- 2.8
Paid by farmers . . . . .	112	- 0.4	+ 1.1
Parity ratio . . . . .	87 <sup>d</sup>	- 1.1	- 3.3

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for September, 1954; comparisons relate to August, 1954, and September, 1953. <sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1954					1953
	Nov. 20	Nov. 13	Nov. 6	Oct. 30	Oct. 23	Nov. 21
Production:						
Bituminous coal (daily avg.).....thous. of short tons.....	1,483	1,511	1,418	1,508	1,481	1,496
Electric power by utilities.....mil. of kw-hr.....	9,317	9,197	9,357	9,152	9,033	8,416
Motor vehicles (Wards).....number in thous.....	156	138	113	87	59	104
Petroleum (daily avg.).....thous. bbl.....	6,163	6,120	6,092	6,056	6,078	6,165
Steel.....1947-49 = 100.....	118	117	113	111	110	127
Freight carloadings.....thous. of cars.....	697	709	695	736	746	726
Department store sales.....1947-49 = 100.....	134	130	127	117	123	131
Commodity prices, wholesale:						
All commodities.....1947-49 = 100.....	109.7	109.7	109.7	109.6	109.4	109.8 <sup>a</sup>
Other than farm products and foods.....1947-49 = 100.....	114.5	114.5	114.5	114.5	114.6	114.5 <sup>a</sup>
22 commodities.....1947-49 = 100.....	90.7	91.8	90.4	90.4	90.4	87.5
Finance:						
Business loans.....mil. of dol.....	22,107	21,133	21,104	21,043	21,126	23,377
Failures, industrial and commercial.....number.....	208	227	204	223	229	223

Source: Survey of Current Business, Weekly Supplements.

<sup>a</sup> Monthly index for November, 1953.



# RECENT ECONOMIC CHANGES

## Manufacturers' Sales Down Slightly

Manufacturers' sales declined slightly in October after seasonal adjustment. Shipments amounted to \$24.6 billion, \$200 million under September and \$2.2 billion below October a year ago. The reduction from September was shared equally by durable and nondurable goods industries.

New orders declined during the month, by \$500 million to \$24.0 billion, but nevertheless continued above the current level of sales for the second successive month. As a result manufacturers' backlogs advanced slightly, although they were about 25 percent below their year-ago level. A major factor responsible for the enlarged order volume in September and October was the placement of defense contracts, principally with transportation equipment manufacturers.

The book value of manufacturers' inventories increased in October by \$100 million to \$43.8 billion on a seasonally adjusted basis. This reflects a moderate increase in the book values of stocks on the shelves of durable goods manufacturers which was partly offset by a drop in nondurable stocks. The rise in durable goods inventories was mainly accounted for by the introduction of 1955 automobiles.

## Security Offerings Remain High

Corporations offered \$2.7 billion of new securities for cash during the third quarter, bringing total offerings for the first three quarters of 1954 to \$7 billion, about 10 percent more than in the same period of 1953. The larger volume of flotations this year reflects mainly a substantial increase in refunding activity as firms took advantage of lower interest rates. During the first nine months of 1954, \$1.2 billion of the proceeds from offerings was designated for retirement of securities, compared with only \$200 million in the corresponding months of 1953.

Despite lower plant and equipment expenditures this

year than last, \$5.3 billion of proceeds, a slightly higher volume than last year, were planned for financing plant and equipment expansion and replacement. In contrast, demand for funds for working capital dropped from \$1.8 billion to \$1.1 billion in the first three quarters of 1954.

Electric, gas, and water companies were again the most important group of issuers. Their offerings amounted to 42 percent of the total in the first nine months, considerably more than this group issued last year. Most other industries maintained security financing at about the same level as a year ago. The principal exception was consumer credit companies whose offerings were reduced from \$1.4 billion in the first three quarters of 1953 to \$650 million in 1954, reflecting the slowdown in the demand for consumer credit.

## Gross Product Stable

The nation's output of goods and services, the gross national product, declined fractionally during the third quarter to a seasonally adjusted annual rate of \$335.5 billion. This stability was produced mainly by increases in personal consumption expenditures and construction activity being offset by continued inventory liquidation, reduced government purchases, and lower outlays for producers' durable equipment.

As compared with the third quarter of last year, however, gross national product was down by \$12 billion

### GROSS NATIONAL PRODUCT

(Seasonally adjusted, billions of dollars at annual rates)

	3rd Qtr. 1954	2nd Qtr. 1954	3rd Qtr. 1953
Gross national product.....	355.5	356.0	367.2
Personal consumption.....	234.8	233.1	231.2
Durable goods.....	28.9	28.8	30.3
Nondurable goods.....	121.1	120.0	118.6
Services.....	84.8	84.3	82.3
Domestic investment.....	45.3	45.6	52.4
New construction.....	28.3	27.0	25.6
Producers' durable equipment..	21.8	22.4	24.8
Change in business inventories..	-4.8	-3.8	2.0
Nonfarm inventories only,...	-5.0	-4.0	2.9
Foreign investment.....	-.2	-1.0	-1.8
Government purchases.....	75.6	78.3	85.4

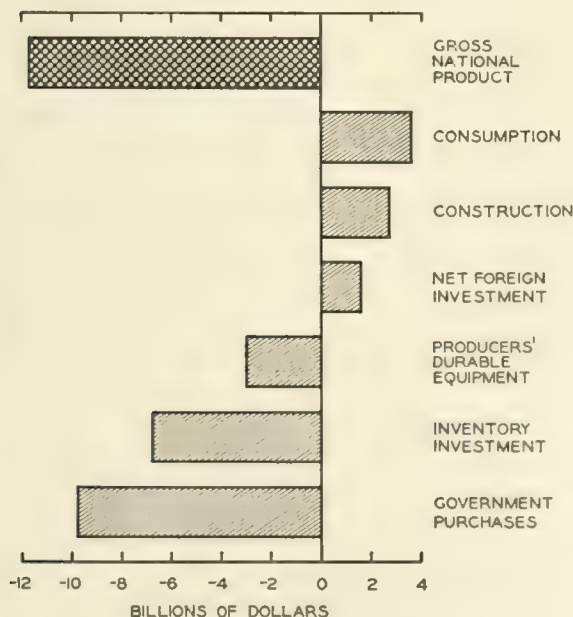
### INCOME AND SAVING

National income.....	n.a.	299.6	306.2
Personal income.....	286.2	285.7	287.5
Disposable personal income.....	253.2	252.9	251.2
Personal saving.....	18.4	19.7	20.0

(3.2 percent). The accompanying chart shows that the most important elements in the decline have been inventories, which moved from an annual rate of accumulation of \$2.0 billion in the third quarter of 1953 to liquidation of \$4.8 billion in the third quarter of this year, and government purchases, off almost \$10 billion over the year. Of the decline in government outlays \$8.5 billion reflected lower defense outlays. Other Federal government expenditures were \$2.3 billion lower, but this drop was offset by a \$2.5 billion increase in state and local expenditures between the two third quarters.

These declines were moderated by higher consumption outlays and continuation of the construction boom. Partly reflecting the increase in disposable income, because of lower taxes, and also a lower level of saving, consumer expenditures rose by \$3.6 billion during the past twelve months despite higher unemployment.

**GROSS NATIONAL PRODUCT**  
(Annual rate change, 3rd qtr. 1953-3rd qtr. 1954)



Source: U. S. Department of Commerce.

## Nonfarm Employment Up

Increased employment in the auto industry and a seasonal advance in trade employment carried the number of nonfarm jobholders in November to a high for the year of 55.6 million. However, a substantial seasonal decline in agricultural employment more than offset the advance so that total employment declined by 400,000 to 61.7 million. Seasonal movements also controlled the unemployment total, as lower construction and food processing activity resulted in a slight rise in unemployment. Census data in thousands of workers are as follows:

	November 1954	October 1954	November 1953
Civilian labor force.....	64,624	64,882	63,353
Employment.....	61,731	62,141	61,925
Agricultural.....	6,154	7,239	6,651
Nonagricultural.....	55,577	54,902	55,274
Unemployment.....	2,893	2,741	1,428

## Metals Production

The production of metals generally has expanded greatly since 1939, but as is evident from the accompanying chart, the rates of expansion have not been uniform. Steel production more than doubled between 1939 and 1953. Copper production was 27 percent and zinc production 80 percent higher last year than in 1939. Lead production actually declined by 20 percent.

Overshadowing these other changes, however, has been the growth in aluminum and tin production. In the case of tin, however, the increase is somewhat illusory as tin consumption in 1953 was slightly below 1939. The United States has virtually no tin ore deposits, but since

1939 greater reliance has been placed on production from imported ores than was the case in earlier years.

The advance in aluminum production, on the other hand, reflects, in addition to continual development of new uses, its success in replacing other metals. This is partly the result of increasing costs of producing non-ferrous metals other than aluminum, notably copper, since it has become necessary to resort to the use of lower-grade ores in recent years.

## United States Foreign Investment

United States direct investment in foreign subsidiaries and branches continued at a rapid pace in 1953, although moderately below 1952's record high. Equity in the book value of direct foreign investments increased by \$1.5 billion last year, compared with \$1.7 billion a year earlier. The 1953 advance brought the value of direct investment abroad to \$16.3 billion, \$10 billion of which has been placed since World War II.

Canada continued as the most attractive investment outlet for United States companies. A record \$660 million of the \$1.5 billion direct investment total was placed there last year. Direct investment in Latin America was reduced from \$580 million in 1952 to \$240 million in 1953, whereas investment in Western Europe was slightly higher last year.

Petroleum companies invested a record \$640 million in foreign enterprises in 1953. About \$400 million of this represented new capital flows, with the remainder accounted for by reinvested earnings of foreign subsidiaries. Half of the capital flow was invested in petroleum resources of Canada. Investment in foreign manufacturing concerns was reduced to a net inflow of \$30 million in 1953 from an outflow of \$200 million a year earlier.

## Total Debt Continues Upward

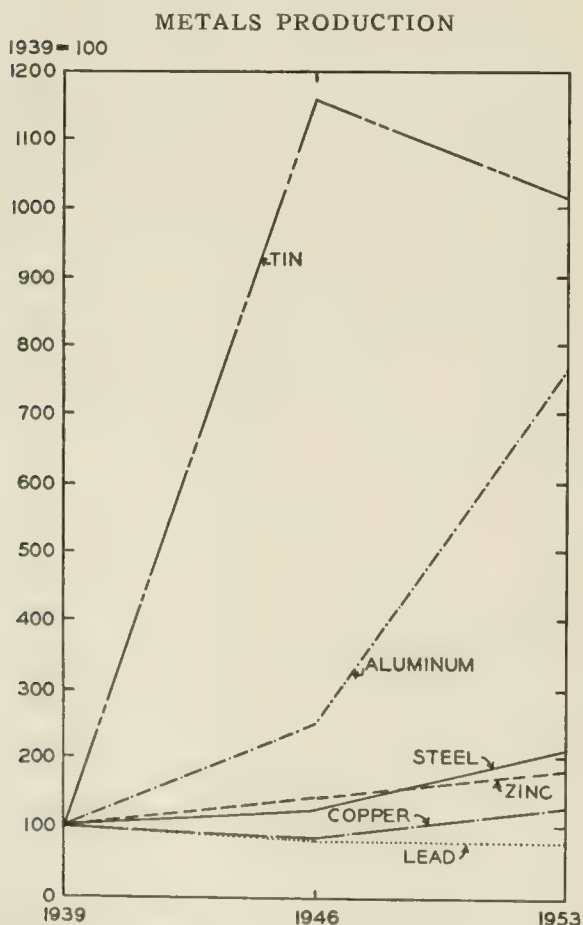
Consumers, business, and all levels of government continued to expand their indebtedness in 1953, but the rate of increase slowed somewhat. New public and private debt moved up by \$29.5 billion to \$585.5 billion at the end of last year. Net private debt advanced most, rising 7 percent to \$328.8 billion, whereas public debt was up 3 percent to \$256.7 billion.

In the private sector, the \$21 billion increase in total private debt was largely the result of an \$8.5 billion advance in nonfarm mortgage debt and a \$7.7 billion increase in corporate long-term indebtedness.

Federal gross debt was up by \$10 billion to \$289.3 billion, some of which is not subject to the statutory debt limit. About half of this amount was obtained from sources within the government, so that net debt increased by only \$5.2 billion to \$228.1 billion. State and local debt, statistics of which are available on a fiscal rather than calendar year basis, continued its rapid postwar expansion, rising 11 percent in the fiscal year ending June 30, 1954. As in other postwar years, most state and local borrowing was used to finance capital improvements, such as schools and highways.

## Construction Boom Continues

Construction activity declined seasonally in November, but expenditures were at a record for the month. Total outlays amounted to \$3.3 billion, 8 percent higher than in November of last year. All of the increase occurred in private construction, as activity in this sector was up 12 percent. Residential building, up 23 percent from its level a year ago, accounted for the bulk of this advance. Public expenditures were unchanged from November, 1953.



Source: U. S. Department of Commerce.



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Vocalize for Better Business

Busy executives and salesmen generally benefit by a good speaking voice. These men, and others to whom a pleasing voice is an asset may now take training at home in their spare time. A series of exercises and songs to strengthen and develop throat muscles is now available in an album of records. In addition to the convenience of being able to take the lessons whenever the student wishes, the album is a good deal less expensive than the regular series of lessons available.

The records are marketed by Cansfield Voco-Records, 2018 Fifth Avenue South, Minneapolis, Minnesota. There are eight ten-inch 78 rpm records made of vinyl plastic in the album; an instruction booklet and a musical program with words for the recorded songs are also included. The whole set is priced at \$36.

### Automotive Aids

The market is filled with new products for safer and easier driving. One of them is a battery charger which the car owner can use safely in his garage to keep the battery at full charge in cold weather or when the car will be left standing for some time, without fear of overcharging. The product, called "Start-O-Matic," is marketed by Franklin Manufacturing Company, 54 22nd Avenue, N.E., Minneapolis, Minnesota. It comes in two sizes, a 6-volt set for \$21.75 and a 6- or 12-volt set for \$26.50.

A "Gas-O-Larm" is also on the market. This item is an electric device that sounds a buzzer when the fuel supply becomes low. The alarm comes in a small case which is attached to the gas gauge underneath the dashboard. Talco Engineering Company, Hamdeon, Connecticut, is the maker of the product, which sells for \$4.95.

Another alarm may sound when you speed through a school zone or other critical area around town. The Zone-alarm Corporation, 712 East 163rd Street, Cleveland 10, Ohio, has developed an electronic device that sets off a siren when vehicles enter the zone in excess of the established speed limit. This both warns those in the area to beware and warns the driver that he is exceeding the speed limit.

### Cleaned Cleaner

A new method, using water and an aggregate, or blended, cleaner, is said to be as effective in removing smoke and dirt from buildings as the more common sandblasting method, without having the erosive effects of the latter. The "Wet Aggregate" process uses a special nozzle which releases the aggregate cleaner with water against the side of the building at very low pressure. The building is "gently" scoured with this action. Because of the low water pressure there is no pitting of the brick or stone, and because the cleaning mixture is mild there is no stain left on the surface.

This method was developed by the Western Waterproofing Company, 1233 Syndicate Trust Building, St. Louis 1, Missouri.

### Magic Comes in Handy

The "Magic Hand" is a new tool designed for getting into awkward places. With it one can hold a small screw in place or retrieve objects which have fallen into vents or drains. It can also be used to handle hot or slippery objects safely.

The T-shaped handle has a round knob on which the thumb rests. A 24-inch cable extends to a four-pronged claw. When the knob is pushed the claws are separated, and when the knob is released they grab onto the object to be retrieved or held.

The "Magic Hand" is a product of the Superior Screw and Manufacturing Company, Incorporated, 1920 North Leamington, Chicago. The tool comes with a red, green, yellow, or black handle, and retails for 98 cents.

### New Farm Implement

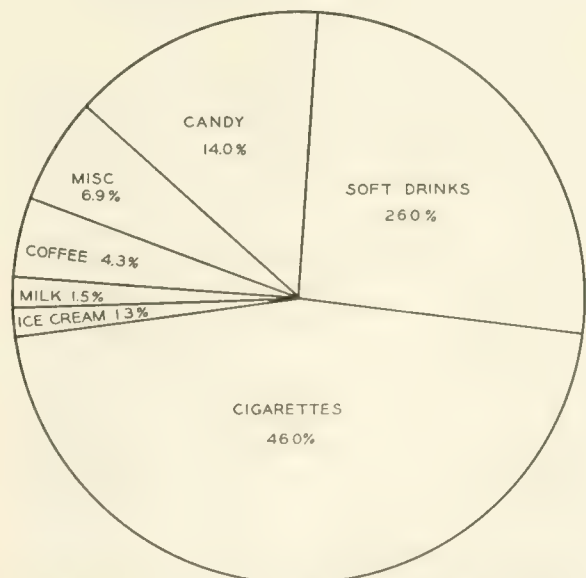
A "Harrotater" is the newest in farm implements to be designed by the Interboro Company, 235 East 34th Street, New York 16, New York. It is a unit which combines the operations of harrowing and pulverizing the soil in one operation, preparing the field for seeding. Advantages of this method are timesaving, extra moisture retention because of the smooth surface, and elimination of soil compaction since the field is gone over only once. The machine may be mounted on the side of a tractor.

### Mechanical Selling, 1954

Sales made through the 2.8 million vending machines in the nation in 1954 increased 7 percent to \$1.5 billion, according to the National Automatic Merchandising Association. As may be seen in the chart below, cigarettes accounted for almost half of the sales. Together with sales of candy and soft drinks, they make up over 85 percent of total sales from vending machines. The next largest categories, coffee, milk, and ice cream, total less than 8 percent of all sales.

The big jumps in sales came from the less important products. In fact, increases were inversely related to size of sales: ice cream sales were up 35 percent, milk sales almost 32 percent, and coffee sales 30 percent over 1953, the latter largely because of the rising use of vending machines for industrial coffee breaks. Sales of the leading three items, on the other hand, increased between 5 percent and 6 percent each.

VENDING MACHINE SALES, 1954



Source: National Automatic Merchandising Association.

# NEED PRIVATE INVESTMENT BE SUBSIDIZED?

HORACE M. GRAY, Professor of Economics

The view that private investment must be stimulated by public subsidy is widely accepted and is now reflected in national policy. Several factors have contributed to this development: (1) the collapse of private investment during the Great Depression; (2) the Keynesian doctrine that the private capital market fails to equilibrate savings and investment at full employment; (3) the general rejection of both public regulation and public investment as remedies—the former as unwarranted interference with business, the latter as “creeping socialism”; (4) the superficial success of recent stimulatory measures; (5) the necessity for some practicable device to counteract the propensity of monopoly and oligopoly to restrict investment; (6) the national interest in overseas investment; (7) the prospective decline of private investment due to completion of the defense build-up and the emergence of excess capacity; (8) the widespread belief that private investment is “the key to the nation’s destiny”—the *sine qua non* of economic progress and general well-being; (9) an intense fear of government, which precludes all alternatives other than subsidy; and (10) the political pressure of organized business for subsidization, provided it is disassociated from public control.

The total impact of these beliefs and these experiences is to impair public confidence in the functional vitality of the private capital market while creating a sense of extreme urgency with respect to maintaining the level of private investment. Then, by a fatal logic of exclusion, government is bereft of all available alternatives except subsidization, resort to which is justified on grounds of dire necessity.

The estimated Dixon-Yates contract is a classic example of this ideological confusion. The Federal government, needing additional electric power in the Tennessee Valley to operate its atomic facilities, had two clear alternatives: (1) supply its own needs by appropriating to the Tennessee Valley Authority sufficient funds to build a new steam plant; or (2) purchase its requirements from a private company, the latter to build the necessary plant. Ordinary common sense would suggest that the choice between these alternatives be based on lowest cost. But, rejecting public investment as “socialistic” and thereby discarding its cheapest alternative, the government has negotiated a contract with a private power combine which over twenty-five years will cost taxpayers some \$92 million to \$139 million more than the TVA proposal. In addition, the scheme threatens the independence and financial integrity of the Tennessee Valley Authority. This excess cost is justified by the Administration as a reasonable price to pay for avoidance of “creeping socialism” and a public appropriation of some \$100 million.

## Depletion Allowances

One of the most common forms of subsidy is immunity from taxation through special deductions from net income. The so-called “depletion allowance,” first used in the oil and gas industries, is a striking example. In 1926 Congress amended the Internal Revenue Act to authorize a tax credit, amounting to 27½ percent of gross sales but not to exceed 50 percent of net revenue, on account of the depletion of oil and gas resources. The ostensible purpose was to stimulate exploration, drilling, and development, to encourage new investment, and to compensate for the unusual hazards involved.

The total benefit that has accrued to the oil and gas industries since 1926—and the corresponding loss of revenue to the Treasury—is unknown. But at the present time the annual benefit is reckoned at some \$700 million. It is obviously a very lucrative privilege, the value of which increases with external, adventitious circumstances entirely unrelated to investment, such as price increases and increases in the corporate tax rate. Because it is based on gross sales and disassociated from actual investment performance, it is a functionless gratuity devoid of commensurate benefits to society.

The depletion allowance has proven so lucrative that other extractive industries have clamored for equality of treatment and Congress has yielded step by step to this pressure. The Tax Bill of 1954 represents the latest concession; the list of privileged industries was greatly extended and rates were raised, generally from 10-15 percent to 23 percent. It is estimated that these changes will cost the Treasury \$32 million per year additional loss of revenue. No evidence is adduced to demonstrate that subsidy is necessary to stimulate new investment in these industries and no provision is made to ensure that the beneficiaries actually invest new capital.

## Accelerated Amortization

Another device for stimulating investment through tax immunity is accelerated amortization—the privilege of writing off new investment at some accelerated rate, usually five years, in the computation of net taxable income. It was first used in a limited way during World War I, the estimated total write-offs being about \$650 million. Although Congress was subsequently critical of the practice, it was resorted to on a larger scale during World War II. From 1940 to 1947 certificates of necessity, entitling the holders to accelerated amortization, aggregated some \$7.3 billion of which about \$5.7 billion was actually used for tax purposes. Again Congress was severely critical, condemning the system as “legalized profiteering.”

These two unhappy experiences, however, were ignored at the time of the Korean crisis in 1950. Again Congress authorized accelerated amortization, but on a scale far greater than before. It is estimated on the basis of present expansion goals that total investment under certificates of accelerated amortization will exceed \$30 billion. If, as appears likely, two-thirds of the total cost should be subject to accelerated amortization, the total base on which write-offs can be calculated will be about \$20 billion. At 20 percent per year for five years this will entitle beneficiaries to an annual charge against net income of \$4 billion. Just how much the excess, or privileged, write-off will reduce the taxes of beneficiaries depends on the level of net income and applicable tax rates, including any excess profits tax. It is obvious, however, that when both profits and taxes are high the privilege is extraordinarily lucrative.

As a subsidy device, the 1950 system of accelerated amortization had two major defects: it was selective, being restricted to defense or defense-supporting facilities; and it was temporary, being limited to five years. Hence, powerful pressure developed to generalize it and to make it permanent. Congress yielded to this pressure and in the 1954 Tax Bill authorized a generalized scheme of rapid depreciation, which, while considerably less



generous than the 1950 Act, provides substantial benefits in the form of tax immunity. This is the declining balance method, with the maximum rate not in excess of twice the straight-line rate. Under this plan approximately 40 percent of an investment can be written off during the first quarter of its useful life and approximately two-thirds during the first half. It is estimated that this provision will reduce the tax burden of business by \$1.55 billion per year, depending on the amount of new investment, corporate profits, and tax rates.

## Subsidies and Investment

There are many other ways besides tax immunity by which government can indirectly subsidize private investment, such as provision of goods and services below cost, loans and insurance below market rates, procurement contracts, guaranteed prices and profit margins, stockpiling at prices above the market, monetary inflation, contributions to discovery and developmental costs, public outlays for scientific research with private pre-emption of benefits, and public investment for which private beneficiaries make less than full reimbursement.

These devices are so ubiquitous that it can almost be said the American economy rests on a foundation of subsidy. To complete the characterization we need but take one additional step—namely, to subsidize private investment directly. This will be ideologically painful perhaps but logically easy, for the conclusion is inherent in our premises. Such a proposal was advanced by Professor Ralph S. Brown, Jr., in a recent study. (*Income Stabilization for a Developing Democracy*, edited by Max F. Millikan, Yale University Press, 1953, pp. 397-436.) Professor Brown suggests (pp. 426-27) that investment subsidies of \$2-\$5 billion per year would probably be necessary, during periods of recession, to maintain the level of capital formation at 10 percent of gross national product. Referring to the ease of the next step (direct subsidy) he says (p. 436): "We have shown how far the long road of government credit has already been traveled; it is relatively easy to open new avenues off a familiar highway."

If we are to avoid this cul-de-sac, we must re-examine critically certain of the premises that dominate current thought. It is the view here that they are largely spurious. The private capital market may fail to equilibrate savings and investment but this is no proof that it cannot be modified and regulated to function satisfactorily. There is no irrepressible conflict between private and public investment; instead, they are functionally interdependent and complementary. The fact that private investment did collapse once is no reason why it need happen again, nor proof that remedial measures are beyond human ingenuity. Monopoly and oligopoly restrict investment opportunities but means are available to revitalize competition if we would only use them. The success of subsidy in stimulating private investment is questionable; it may be doubted that it is really necessary, or that a satisfactory level of investment could not be attained by other and preferable means, or that subsidy actually promotes investment as much as is commonly supposed. Further, no account is taken of the social costs involved, such as inflation, concentration of economic power, structural distortions within the economy, or corruption of government by pressure groups.

One of these social costs that should arouse special concern is the deleterious effect on small business. Although it is theoretically possible to devise an invest-

ment subsidy that would be neutral in its structural consequences, or one that would actually favor small business as against big business, it does not ordinarily work this way in practice. The strategic position of big business in the areas of large-scale investment is so superior that such a subsidy, no matter how carefully drafted to equalize conditions, almost invariably operates to the relative advantage of large firms. It is the heavily capitalized, highly mechanized, rapidly expanding concerns which are best situated to benefit from an investment subsidy. By contrast, a small business, in which new capital investment is a relatively minor factor, benefits but little. The net over-all effect, then, is to enhance the economic power of large firms and to weaken further the already precarious competitive position of small business.

Overseas investment presents special problems, both political and economic, but subsidy of private investment is neither necessary nor desirable to solve them. In fact, it may well make matters worse and prevent any satisfactory solution. If the world is to be made safe and attractive for private investment there must be international agreements to achieve political stability, eliminate trade restrictions, establish convertibility of currencies, restore the international capital market, and strengthen the economies of underdeveloped areas. These conditions are basic for successful private investment and without them no amount of subsidy will provide a long-range solution for the problem.

## Safeguarding Free Enterprise

We need especially to re-examine the role of investment and of government in the modern economy. Investment, while important, is neither the key to the nation's destiny nor the chief end of man. This "brick and mortar" theory of continuous capital formation, at an ever-accelerated rate sustained by artificial stimulants, is a materialistic power concept, which serves power groups effectively but has no validity in a society that places human welfare above power. Capital formation, like all other economic processes, should serve man, not vice versa. When the community, from some misguided sense of necessity, subsidizes this process it perverts its sovereign power to the service of private interest.

This dangerous trend should be reversed. The community, however, cannot assert its supremacy so long as men harbor an irrational, paralyzing fear of governmental intervention. If they deny government the power to control or participate in the process of capital formation for the general good then, if for any reason the private system falters, society has no recourse other than subsidy. Because it cannot allow the economy to collapse, a government thus bereft of power to act will inevitably resort to subsidy. In short, it will pay private investors to do what must be done but which they would not otherwise do and which it cannot do itself. But it is quite unrealistic for a free people to allow themselves to be thus driven by secret fears to this desperate extremity. The ultimate stake is the preservation of a competitive private enterprise system and the economic freedom associated with such an economy. If one of the basic processes of private capitalism—investment—will not work and cannot be made to work without subsidy, then indeed the system is doomed.

Actually, there are many alternatives, given the courage, imagination, and common sense to use them. It behooves us to explore these possibilities carefully ere we succumb to the siren lure of subsidy.

## LOCAL ILLINOIS DEVELOPMENTS

Business generally improved in Illinois during October. The few declines that did occur were small, all less than 2 percent. The increases, on the other hand, varied from 1.9 percent to 22.9 percent. Both coal and petroleum production were more than 5 percent higher than in the preceding month, but as in the past several months, coal ran well below a year ago, whereas the production of petroleum was up substantially.

Construction contracts awarded rose 22.9 percent in October to well above last year's levels. Other major increases were recorded in electric power production and in percent of steel capacity used.

## Crop Production in 1954

Illinois crop production in 1954 is down about 5 percent from last year, largely because of drouth conditions experienced by the central and southern portions of the State during the summer months. Gains ranging from 3 percent to 12 percent in the northern agricultural areas were not enough to offset declines of up to 40 percent in the southern sections. With rare exceptions, the movements of individual counties reflected the conditions of the whole area.

Corn, the principal crop for the State, dropped almost 13 percent to make up the largest portion of the bushel loss. The only gains were recorded in the most northern

areas; declines in the other parts of the State ranged up to 56 percent. Although remaining almost 50 percent above the 1943-52 average, wheat accentuated the cut in crop production with a drop of 12 million bushels.

Sharp increases were recorded in the production of the other main crops in Illinois. Almost 25 percent more oats were harvested than in 1953, and the soybean crop was up 19 percent. These were not enough bushel-wise, however, to offset the large decline in the corn crop.

## Construction in Illinois

Illinois construction paced the nation to new heights. The value of contracts awarded in October, 1954, was up almost 23 percent from the preceding month, and more than 63 percent from October, 1953. For the nation as a whole the rise for the month was only 8 percent, and the rise from a year ago was less than 4 percent.

Contracts awarded in Illinois during the first ten months of 1954 total 15 percent more than in 1953. This brings the total for 1954 with two months to go to only \$22 million less than for all twelve months of 1953, ensuring a new peak.

Building permits issued give some indication of how the construction boom has spread throughout the State. A major share of the increase is found in Aurora, Belleville, Bloomington, and Springfield. Substantial rises were also recorded in Alton, Rock Island-Moline, and Rockford, comparing ten-month totals of 1954 with 1953. Four cities, Danville, East St. Louis, Kankakee, and Peoria, had declines of more than 10 percent, but they were not enough to offset the rises elsewhere.

Over the nation as a whole the greatest increase was in residential building, and this seems to hold for Illinois as well. The increases in construction contracts awarded and in building permits issued seem to indicate that the building industry should do its part in bolstering the economy again next year.

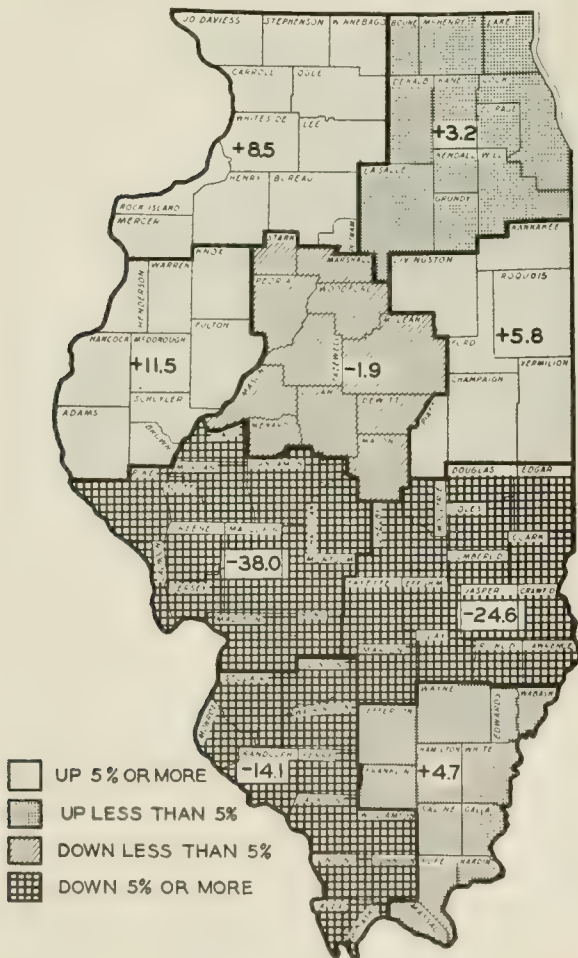
## Business Loans in Chicago

The middle of November brought the first sharp increase in business loans at leading Chicago banks in many months. An upsurge of \$127 million in the week of November 17 broke the long decline that had brought outstanding loans to \$1,884 million, their lowest point since mid-1951. This turn, however, was not the result of a spurt of business activity, but came as Chicago banks invested in the recent issue of Commodity Credit Corporation Certificates of Interest.

The lack of business pressure behind this increase is evidenced by the lack of seasonal rise in loans in the weeks following the jump. Trade and manufacturing industries, usually mainstays of the fall seasonal swing, are the main factors behind the continued decline in business loans at Chicago banks.

So far this fall there has been little evidence of the usual seasonal upturn in business loans. They have remained substantially below levels of a year ago. Even the issues of Certificates of Interest, which boosted loans to within \$100 million of the corresponding 1953 total and which are expected to cause further increases in loans outstanding with later issues, may be of little help in comparisons after the middle of December. The first Certificates of Interest were issued in December, 1953, and it is unlikely that this year's issues will be enough larger than last year's to offset the lower level of other business loans.

### CROP PRODUCTION IN ILLINOIS (Percentage change, 1953 to 1954)



Source: Illinois Cooperative Crop Reporting Service.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

October, 1954

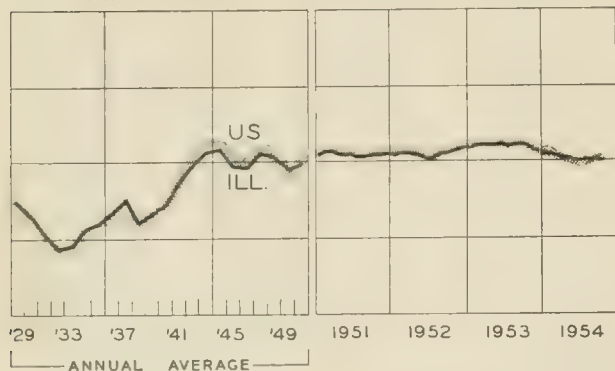
	Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>1</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b> .....	\$32,473 <sup>a</sup>	926,846 <sup>a</sup>	\$492,776 <sup>a</sup>		\$12,277 <sup>a</sup>	\$14,415 <sup>a</sup>
Percentage Change from.....						
{Sept., 1954.....	+9.2	-0.2	+24.2	+6	-0.4	+0.8
{Oct., 1953.....	+16.0	+1.6	-6.6	-2	-4.4	-5.0
<b>NORTHERN ILLINOIS</b>						
<b>Chicago</b> .....	\$26,053	706,895	\$355,322		\$11,150	\$12,698
Percentage Change from.....						
{Sept., 1954.....	+20.4	-0.7	+33.8	+5	-0.6	+0.3
{Oct., 1953.....	+23.1	-0.1	-7.1	-2	-4.5	-5.6
<b>Aurora</b> .....	\$ 407	n.a.	\$ 7,382		\$ 48	\$ 106
Percentage Change from.....						
{Sept., 1954.....	-39.8		+8.6	+8	-2.9	-8.6
{Oct., 1953.....	+11.2		+1.0	+3	-4.2	-5.5
<b>Elgin</b> .....	\$ 507	n.a.	\$ 5,290		\$ 32	\$ 99
Percentage Change from.....						
{Sept., 1954.....	+75.4		-6.1	-7	-1.9	-13.6
{Oct., 1953.....	-10.3		-2.9	-8	+2.3	-12.3
<b>Joliet</b> .....	\$ 621	n.a.	\$11,339		\$ 63	\$ 87
Percentage Change from.....						
{Sept., 1954.....	+94.7		+15.4	+5	+0.2	+1.1
{Oct., 1953.....	+53.0		-8.5	-1	-1.7	+3.3
<b>Kankakee</b> .....	\$ 119	n.a.	\$ 5,222		n.a.	\$ 39
Percentage Change from.....						
{Sept., 1954.....	-41.7		+3.4	n.a.		+16.7
{Oct., 1953.....	+19.0		-4.9			+3.8
<b>Rock Island-Moline</b> .....	\$ 878	18,580	\$ 8,955		\$ 81 <sup>b</sup>	\$ 148
Percentage Change from.....						
{Sept., 1954.....	-13.2	-3.2	+2.6	n.a.	+9.0	+11.0
{Oct., 1953.....	-12.6	+6.9	-7.3		+0.9	-6.3
<b>Rockford</b> .....	\$ 844	31,856	\$15,603		\$ 135	\$ 186
Percentage Change from.....						
{Sept., 1954.....	-47.3	+10.9	+7.5	+12 <sup>c</sup>	+0.2	+12.7
{Oct., 1953.....	-0.5	+4.0	-5.3	-3 <sup>c</sup>	-0.7	+5.0
<b>CENTRAL ILLINOIS</b>						
<b>Bloomington</b> .....	\$ 457	6,566	\$ 5,111		\$ 57	\$ 89
Percentage Change from.....						
{Sept., 1954.....	-12.1	+0.5	+2.4	n.a.	-3.5	+24.7
{Oct., 1953.....	+66.8	-2.8	-25.0		-4.3	+0.1
<b>Champaign-Urbana</b> .....	\$ 97	9,193	\$ 7,231		\$ 60	\$ 101
Percentage Change from.....						
{Sept., 1954.....	-53.6	+11.2	+13.5	n.a.	+13.2	+15.0
{Oct., 1953.....	-50.8	+10.1	-1.3		-3.0	+7.2
<b>Danville</b> .....	\$ 150	9,720	\$ 5,647		\$ 47	\$ 55
Percentage Change from.....						
{Sept., 1954.....	-49.8	+0.7	+1.2	+13	-0.1	-11.3
{Oct., 1953.....	-6.3	+15.0	-5.4	-2	-3.1	-12.7
<b>Decatur</b> .....	\$ 686	25,821	\$10,525		\$ 110	\$ 108
Percentage Change from.....						
{Sept., 1954.....	+28.2	+10.2	+2.4	+10 <sup>c</sup>	+9.1	+2.0
{Oct., 1953.....	-36.6	+16.8	+3.1	-1 <sup>c</sup>	-8.5	-6.0
<b>Galesburg</b> .....	\$ 131	6,754	\$ 4,100		n.a.	\$ 33
Percentage Change from.....						
{Sept., 1954.....	-65.0	-0.3	+5.0	n.a.		-6.5
{Oct., 1953.....	-12.7	+8.1	-2.7			-6.4
<b>Peoria</b> .....	\$ 394	44,681 <sup>c</sup>	\$15,661		\$ 189	\$ 223
Percentage Change from.....						
{Sept., 1954.....	-35.1	-4.2	+3.3	+0 <sup>c</sup>	+1.2	+7.1
{Oct., 1953.....	-31.7	+4.2	-9.4	+1 <sup>c</sup>	-11.5	-11.9
<b>Quincy</b> .....	\$ 176	8,008	\$ 4,681		\$ 38	\$ 69
Percentage Change from.....						
{Sept., 1954.....	-64.6	-2.2	+3.7	+17	+6.9	+11.4
{Oct., 1953.....	-5.9	+14.0	-1.2	-2	+0.9	+5.7
<b>Springfield</b> .....	\$ 361	28,370 <sup>c</sup>	\$12,718		\$ 100	\$ 225
Percentage Change from.....						
{Sept., 1954.....	+46.7	-0.7	+5.6	n.a.	+1.3	+7.5
{Oct., 1953.....	-9.5	+12.3	+0.3		+0.6	+16.9
<b>SOUTHERN ILLINOIS</b>						
<b>East St. Louis</b> .....	\$ 182	12,106	\$ 9,174		\$ 134	\$ 73
Percentage Change from.....						
{Sept., 1954.....	+59.6	-5.1	+3.0	n.a.	+3.1	-6.4
{Oct., 1953.....	+152.8	-6.3	-2.8		1.2	+6.3
<b>Alton</b> .....	\$ 162	12,222	\$ 4,559		\$ 33	\$ 32
Percentage Change from.....						
{Sept., 1954.....	-69.9	+0.7	+1.6	n.a.	-0.5	+10.3
{Oct., 1953.....	+15.7	+6.5	-11.5		-10.2	+15.2
<b>Belleville</b> .....	\$ 248	6,076	\$ 4,257		n.a.	\$ 46
Percentage Change from.....						
{Sept., 1954.....	+287.5	-6.8	-2.6	n.a.		+15.9
{Oct., 1953.....	-17.1	+12.7	-2.3			+17.2

<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for September, 1954, the most recent available. Comparisons relate to August, 1954, and September, 1953. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

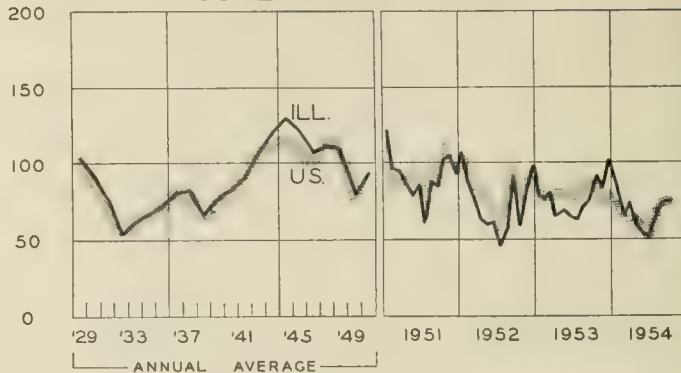
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

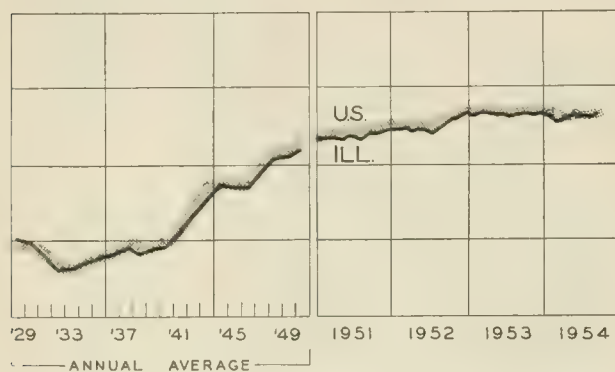
EMPLOYMENT - MANUFACTURING



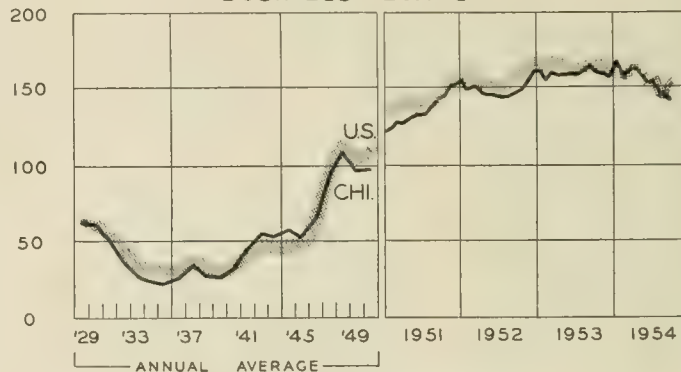
COAL PRODUCTION



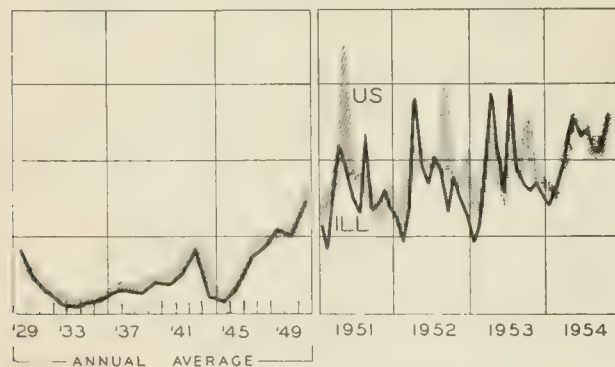
AVG. WKLY. EARNINGS — MANUFACTURING



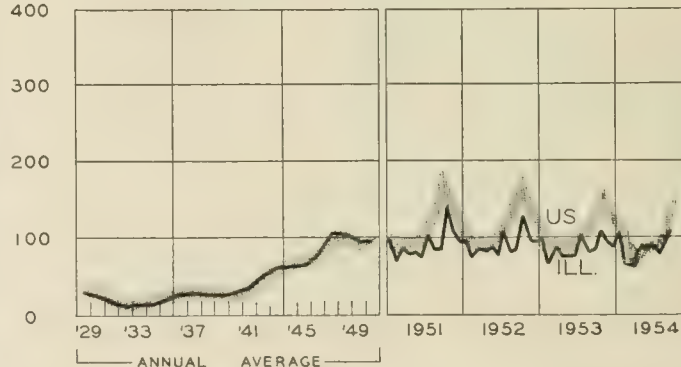
BUSINESS LOANS



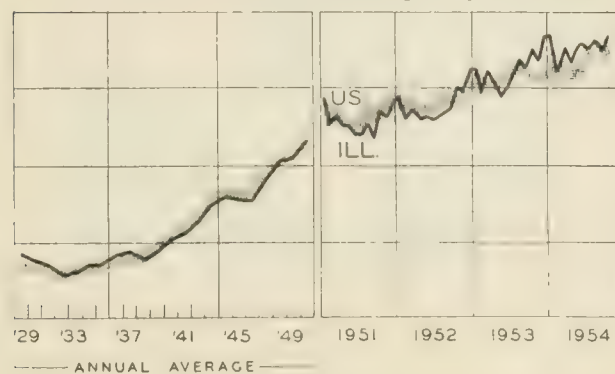
CONSTRUCTION CONTRACTS AWARDED



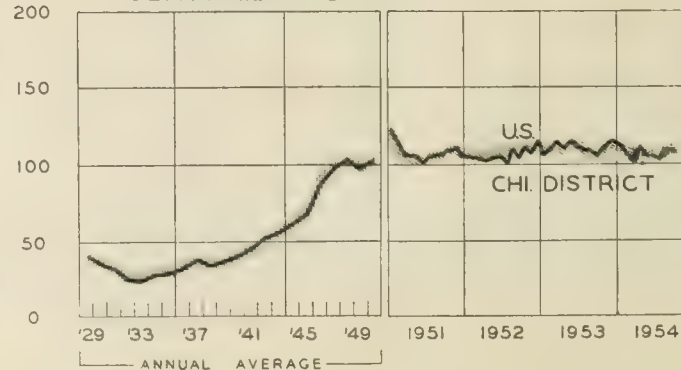
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME XII

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NUMBER 1

## HIGHLIGHTS OF BUSINESS IN DECEMBER

The last month of 1954 witnessed the first time in the year that industrial production surpassed its level in the corresponding month of the preceding year. The Federal Reserve Board index of industrial activity in December was estimated at about or slightly above the seasonally adjusted November level of 129 (1947-49 = 100), which compares with an index figure of 126 for December, 1953. The rapid pickup in automobile manufacturing following the introduction of the 1955 models was a major factor acting to maintain production in December. Total automotive output in the month was 25 percent over November and 60 percent over December, 1953.

Reflecting the high level of activity in December, the employment picture continued favorable. Unemployment declined slightly, to 2.8 million. Total employment also fell, by about a million, but the declines were centered in outdoor work such as farming and construction where activity normally drops off at that time of year.

### Sales Up

For retailers generally, December was a banner month as retail sales exceeded the December, 1953, level by 9 percent. In the case of department stores, business improved each successive week in December until Christmas, with sales running well ahead of the corresponding weeks of 1953. For the week ending December 25, sales were up substantially in all regions of the country and the national total rose 16 percent above the year-ago figure. Part of this advance, however, was attributable to the extra shopping day during the week before this Christmas.

After adjustment for this extra shopping day and for seasonal factors, department store sales in December were 1.8 percent over November and 2.6 percent over December, 1953.

Total retail sales in 1954, at somewhat more than \$170 billion, were substantially the same as in 1953. Sales of department stores in 1954 were about 1 percent less than in 1953 despite their strong year-end showing.

### Higher Margins Required

Margin requirements for the purchase and short sale of stocks were raised from 50 percent to 60 percent by the Federal Reserve Board, effective with the opening of trade on January 5. The change affects only new purchases; no additional funds will have to be put up to cover stock already bought on the 50-percent margin.

No specific reason was given by the FRB, but the

change is generally felt to be a cautioning move brought about by the steady rise in stock prices since the November elections. During December alone, the Dow-Jones index of 30 industrials increased by 4.6 percent, with many lower-priced, more speculative stocks rising by much larger percentages. Brokers' loans had also increased fairly steadily during 1954 although margin purchases were believed to represent only a small fraction of all stock purchases in the year.

### Construction Down Seasonally

New construction put in place during December, valued at \$3.0 billion, was off 9 percent from November because of seasonal factors, but remained 10 percent higher than the December, 1953, level. Private outlays remained 15 percent over the corresponding 1953 month whereas public expenditures were down 2 percent.

The value of total new construction put in place in 1954 came to \$37.2 billion, a new peak 5 percent over the 1953 figure. Private outlays amounted to \$25.7 billion, 8 percent higher than in 1953; public construction was valued at \$11.5 billion, very slightly higher than in the previous year. The largest part of the 1954 increase occurred during the second half and reflected mainly the high volume of private housing starts during the fall.

### The Year in Brief

Despite a limping start, 1954 wound up as a fairly good year in many respects. After a slow beginning, industrial production gained momentum and surpassed 1953 levels by the end of the year. Automobiles likewise picked up speed after making a slow start. Total output of more than 5.5 million cars made last year the industry's third best. Steel production was off a fifth from 1953's high point, but the 88 million tons turned out made 1954 the second best peacetime year on record. Electric power output reached a new high, with total production of approximately 470 billion kilowatt-hours.

Construction boomed along at peak rates and reached a total 5 percent over the previous year. Retailers also made out well, with total retail sales estimated at approximately the same level as in 1953. For farmers, however, 1954 was another year of decline, net farm income dropping an estimated 6 percent.

The total value of the nation's production of goods and services in the year is estimated at \$356 billion, 2.5 percent below the 1953 record.

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## Our Insatiable Appetites

Man is a curious animal (and woman perhaps even more so). The more he consumes, the more he wants to consume. This phenomenon lies at the heart of one basic paradox that has characterized our economy in the past and at the same time sets the stage for another that is only just beginning to appear. These paradoxes have to do with the relation of the nation's expenditures for consumption goods to the nation's income.

Recent emphasis on the importance of high levels of consumption as a determinant of future prosperity has focused interest on the nature of this relation. Like women's bathing suits, this relation possesses an interesting past and an intriguing future.

### The Paradox of the Past

In a primitive society, almost all income—that is, almost all the people's energies—is devoted to survival, to obtaining goods that are used up more or less currently. As the society prospers, more and more individuals find that they do not have to devote all their energies and income to survival for the present but are able to enjoy the luxury of saving, of putting part of their income aside for future use. (The type of expenditures also changes somewhat, principally in the direction of cultural and recreational activities, but this need not concern us at the moment.) Except for that part which is hoarded in mattresses, stockings, and other such places, the greater proportion of these savings is borrowed by others through the medium of banks and other investment institutions, and is used to contribute further to the progress of society in the form of new plant and equipment and in furthering technological innovations. These new products and facilities make it possible for the society to devote still less of its income to current survival and make available more money for savings and for other pursuits. In this way, still more resources are provided for growth and development.

In theory, this is the manner in which the United States has attained its present stature as the world's foremost industrial power. Examination of the evidence, however, reveals some seemingly contradictory phenomena. On the one hand, the percentage of the nation's total income spent on consumption goods annually has changed but little over the past eighty years or so, remaining at about 80 cents out of each dollar of national output (though the percentage has declined considerably in recent years with the sharp rise in taxes).

On the other hand, as is well known, those at higher income levels tend to save more, proportionally as well as absolutely, than those at lower income levels. And as the nation's prosperity has grown, the proportion of families at higher income levels has also increased. In view of these facts, one would expect that the proportion of the nation's income that is saved would have increased over time or, conversely, that the proportion of income spent on consumption goods would have declined. Yet except for the last few years, the proportion of the nation's aggregate income devoted to current consumption expenditures has not declined at all. What is the explanation?

The explanation, as with many other apparently complex phenomena, turns out to be a fairly simple one. It lies in our continual striving for an ever-higher plane of living, in the desire of people to improve their lot no matter what their incomes. This search for greater comfort combined with momentous technological advances has greatly increased the amount and variety of goods available at prices which most people can afford, and has thereby tended to increase expenditures for consumption goods in relation to income at all income levels. In recent years, this tendency has been reinforced by the sharp rise in prices, which means that a given amount of money will buy much less today than it would have twenty years ago.

Thus, the relative stability of consumption expenditures in relation to income in the past is the result, in effect, of the increasing propensity to spend at given levels of income offsetting the over-all growth in income and in the proportion of people higher up on the income scale.

### The Enigma of the Future

What can be said about the course of this relation in the future? Is the proportion of the nation's income spent annually on consumption goods likely to continue about the same as in the past or does some change appear to be in the offing?

If one thing is clear, it is that our appetites for consumption goods are by no means satisfied. There is no letup in the search for new and better products and in ways to improve further our levels of living. The technological innovations brought into being by the last war have, if anything, intensified efforts in this direction, and there is little doubt that we are now only on the threshold of a technological revolution which will alter almost completely present concepts and levels of living while raising these levels substantially. Although some of these innovations will tend to lower costs of present products rather than to introduce new products, the net effect of the changes will be in the latter direction, that is, the trend toward higher expenditures out of given levels of income may be intensified.

At the same time, however, another tendency is apparent which may work in the opposite direction. This is the increasing preoccupation with financial security, which is reflected in the growth of pension funds, many types of life insurance, and other forms of deferred payments. This desire for security obviously gives rise to a need for putting aside more of one's income than would otherwise be the case in order to live a better life in the future.

These two tendencies may well conflict with each other. Unless the benefits of technology are almost wholly of a price-cutting nature—which is hardly likely—peo-

(Continued on page 6)



## **THE CHAIN DRUG STORE**

The chain drug store that first came into the picture at the turn of the century as a small, dark, narrow establishment was indeed a far cry from the spacious, well-illuminated, and modern emporium that we know today. Its rise to prominence was not always an upward path, and was accomplished only after a long and bitter struggle.

The chain drug stores grew because they introduced a method of retail distribution which the older wholesaler-retailer system failed to supply. The offering of a variety of merchandise was a principal factor in their success. Many derisive remarks are made today about the variety of products sold by the modern drug store. Yet few people realize that it was the drug store that introduced most of these products. Radios, along with phonographs and records, were first promoted by drug chains when they came on the market. Books, vacuum bottles, coffee percolators, alarm clocks, pocket knives, and stationery were all regular sundry items more than thirty years ago. Even Scotch and Bourbon were poured from bottles on the backbar at the soda fountain before state laws narrowed liquor sales to the saloon. One early chain went so far as to sell tires and tubes, quitting only when it became apparent that the strong rubber smell was distasteful to its customers.

There were several other reasons for the success of the drug chains even in the face of widespread and well-established competition and numerous forms of anti-chain store legislation. When the chains first appeared the retail druggist was a professional man, primarily interested in compounding prescriptions and selling medicines. He was not the aggressive type nor was he interested in expanding into other lines.

Thus he was vulnerable to the kind of competition which the chains introduced. They offered lower prices, due primarily to the adoption of the cash-and-carry principle and to benefits of large-scale operation. Their physical appearance along with superior locations, due to a larger command of capital, was of vital importance and gave a decided advantage over the average independent.

### **Illinois Drug Chains**

The Walgreen Company, with headquarters in Chicago, is the largest drug chain in Illinois and operates a chain of retail drug stores in 40 states from coast to coast. They manufacture and sell their products to approximately 1,400 franchised "Walgreen Agency" stores and own and operate 388 company stores, of which over one-third are located in Illinois.

The first Walgreen Drug Store commenced its operations in 1901 at 4134 Cottage Grove Avenue, Chicago. The company was officially incorporated in July, 1916, and has expanded to where it currently employs approximately 16,200 persons. The remarkable progress that it has made during the past few years may be emphasized by the fact that in its 1954 fiscal year, its net sales totaled \$184.3 million, as compared with \$141.1 million in 1946.

The Rexall Drug Company, manufacturer of more

than 5,000 various drugs, medicines, and other preparations and commodities, sells its products to more than 11,000 independently owned franchised retailers and operates 239 company-owned stores. Hundreds of independent merchants and small chains throughout Illinois have benefited as Rexall franchise stores because of a 50-percent increase in national advertising since 1952.

Osco Drug, Incorporated, operating 19 self-service drug stores in the Midwestern states, has approximately 300 employees, with about 135 employed in its eight Illinois stores. The first Illinois unit, located in Rockford, is today an excellent example of a modern chain drug store operating with a high degree of success.

The Stineway Drug Company, Ford Hopkins Company, Wright and Lawrence, Incorporated, and Sun Drug Stores are only a few of the drug chains located in Chicago. The eight S & C Drug Stores of Peoria, seven Thrifty Drug Stores of Springfield, and the five McBride's Drug Stores of the Champaign-Urbana area represent a few of the many drug store chains throughout the State.

### **The General Trend**

In the past thirty years, the drug chains have more than held their own. They have, however, fallen short of the sharper increases recorded by retail sales during more recent years.

Retail sales of all nondurable consumer goods between 1929 and 1949 increased 154 percent. During the same period, total retail drug sales gained 101 percent, whereas drug chains boosted their sales by 205 percent. During the past five years, however, there has been a decided decline in the percentage of drug store gains as compared with all retailing.

The drug chains have had to meet the increasing competition created by the consumer demand for durables, such as automobiles, homes, television, and various appliances. Strong competition also exists in other types of operations, such as the toilet goods counters of the 10-cent store, the bargain basements and regular departments of the department store, and the encroachments of the grocery supermarket. Food chains in particular present a serious problem, as they have made substantial gains in selling high-profit items previously sold only by drug stores. About 60 percent of all dentifrices, 40 percent of all cigarettes, and a good proportion of cosmetics and vitamins are now sold by food chains.

To offset the inroads made by competitors, drug store chains have concentrated on large, high-volume stores which has resulted in the closing of many small and marginal units. New stores are being constructed, existing locations modernized and enlarged, and the self-service drug outlet has been introduced in an effort to meet the challenge of high costs.

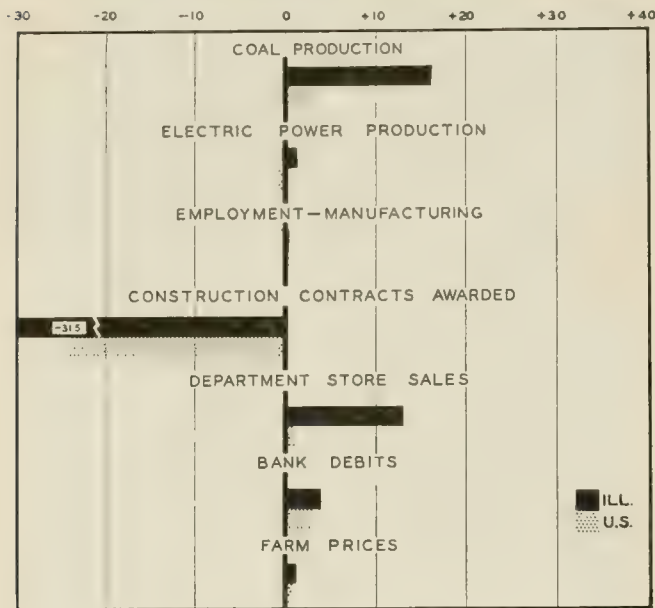
Despite the pressure of competition, the principal drug chains appear to be in good financial condition. By expanding store facilities to include additional "drive-in" shopping centers in suburban areas, they may, in time, recover much of the ground lost in recent years.

# **KNOW YOUR STATE**

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes October, 1954, to November, 1954



## ILLINOIS BUSINESS INDEXES

Item	November 1954 (1947-49 = 100)	Percentage Change from	
		Oct. 1954	Nov. 1953
Electric power <sup>1</sup>	189.9	+ 1.5	+12.5
Coal production <sup>2</sup>	90.1	+15.9	+ 8.0
Employment—manufacturing <sup>3</sup>	101.5	+ 0.1	- 7.2
Weekly earnings—manufacturing	134.1 <sup>a</sup>	- 0.9	- 0.1
Dept. store sales in Chicago <sup>4</sup>	108.1 <sup>b</sup>	- 0.9	- 0.9
Consumer prices in Chicago <sup>5</sup>	117.6	+ 0.4	+ 1.0
Construction contracts awarded <sup>6</sup>	176.9	-31.5	+ 5.8
Bank debits <sup>7</sup>	146.0	+ 3.9	+ 6.5
Farm prices <sup>8</sup>	85.0 <sup>c</sup>	+ 1.2	- 3.4
Life insurance sales (ordinary) <sup>9</sup>	177.8	+11.9	+19.0
Petroleum production <sup>10</sup>	103.5	- 2.1	+14.1

<sup>1</sup> Federal Power Commission; <sup>2</sup> Illinois Department of Mines; <sup>3</sup> Illinois Department of Labor; <sup>4</sup> Federal Reserve Bank, 7th District; <sup>5</sup> U. S. Bureau of Labor Statistics; <sup>6</sup> F. W. Dodge Corporation; <sup>7</sup> Federal Reserve Board; <sup>8</sup> Illinois Crop Reports; <sup>9</sup> Life Insurance Agency Management Association; <sup>10</sup> Illinois Geological Survey.  
<sup>a</sup> October data; comparisons relate to September, 1954, and October, 1953. <sup>b</sup> Seasonally adjusted. <sup>c</sup> Revised series.

## UNITED STATES MONTHLY INDEXES

Item	November 1954	Percentage Change from	
		Oct. 1954	Nov. 1953
Personal income <sup>1</sup>	287.6 <sup>a</sup>	+ 0.5	+ 0.1
Manufacturing <sup>1</sup>			
Sales	295.2 <sup>a</sup>	+ 5.6	+ 1.2
Inventories	43.8 <sup>a, b</sup>	0.0	- 6.6
New construction activity <sup>1</sup>			
Private residential	15.2	- 3.0	+22.5
Private nonresidential	12.7	- 3.1	+ 1.2
Total public	11.3	-13.0	- 0.6
Foreign trade <sup>1</sup>			
Merchandise exports	15.2 <sup>c</sup>	+13.8	- 1.1
Merchandise imports	9.2 <sup>c</sup>	- 2.2	- 6.2
Excess of exports	6.0 <sup>c</sup>	+51.6	+14.4
Consumer credit outstanding <sup>2</sup>			
Total credit	29.2 <sup>b</sup>	+ 0.8	+ 3.4
Installment credit	22.0 <sup>b</sup>	+ 0.3	+ 2.0
Business loans <sup>2</sup>	22.2 <sup>b</sup>	+ 5.3	- 4.5
Cash farm income <sup>3</sup>	38.4	-10.0	- 6.0
Indexes (1947-49 = 100)			
Industrial production <sup>2</sup>			
Combined index	129 <sup>a</sup>	+ 2.4	0.0
Durable manufactures	144 <sup>a</sup>	+ 3.6	- 1.4
Nondurable manufactures	118 <sup>a</sup>	+ 0.9	+ 2.6
Minerals	110 <sup>a</sup>	+ 0.9	- 0.9
Manufacturing employment <sup>4</sup>			
Production workers	102 <sup>a</sup>	+ 0.8	- 6.3
Factory worker earnings <sup>4</sup>			
Average hours worked	101	+ 0.5	+ 0.3
Average hourly earnings	137	+ 0.5	+ 1.7
Average weekly earnings	138	+ 1.1	+ 1.9
Construction contracts awarded <sup>5</sup>	196	-23.7	+ 7.5
Department store sales <sup>2</sup>	114 <sup>a</sup>	+ 0.9	+ 0.9
Consumers' price index <sup>4</sup>	115	+ 0.1	- 0.3
Wholesale prices <sup>4</sup>			
All commodities	110	+ 0.1	0.0
Farm products	93	0.0	- 0.6
Foods	104	+ 0.1	0.0
Other	115	+ 0.1	+ 0.1
Farm prices <sup>3</sup>			
Received by farmers	90	+ 0.8	- 2.0
Paid by farmers	112	0.0	+ 0.7
Parity ratio	87 <sup>d</sup>	0.0	- 3.3

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for October, 1954; comparisons relate to September, 1954, and October, 1953.  
<sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1954					1953
	Dec. 25	Dec. 18	Dec. 11	Dec. 4	Nov. 27	Dec. 26
Production:						
Bituminous coal (daily avg.)	1,661	1,470	1,463	1,417	1,470	1,552
Electric power by utilities	9,400	9,909	9,846	9,612	9,087	8,174
Motor vehicles (Wards)	144	174	171	167	130	85
Petroleum (daily avg.)	6,923	6,268	6,235	6,181	6,167	6,158
Steel	107	121	122	121	119	90
Freight carloadings	561	642	654	662	584	481
Department store sales	189	240	224	191	133	163
Commodity prices, wholesale:						
All commodities	109.4	109.4	109.4	109.5	109.5	110.1 <sup>a</sup>
Other than farm products and foods	114.7	114.7	114.7	114.5	114.5	114.6 <sup>a</sup>
22 commodities	89.9	89.4	90.3	90.2	90.4	88.3
Finance:						
Business loans	22,423	22,359	22,255	22,214	22,137	23,361
Failures, industrial and commercial	213	208	223	221	226	162

Source: Survey of Current Business, Weekly Supplements.

<sup>a</sup> Monthly index for December, 1953.



## RECENT ECONOMIC CHANGES

## Housing Starts at Record

Home building continued to establish new records toward the end of 1954. Housing starts in November amounted to 102,700, an all-time high for the month. The total was 29 percent above November, 1953, and down only 3 percent from October's volume; the usual seasonal decline between October and November is between 10 and 15 percent. The record level of starts in the fourth quarter of 1954 ensures high construction activity during the early part of the new year, since work begun late in 1954 will require several months to complete.

In the first 11 months of 1954, nonfarm starts totaled 1.1 million, 18 percent above the corresponding period of 1953. In fact, the number of new homes begun through November, 1954, already exceeded the full year 1953 total.

## Industrial Production Expanding

Industrial production increased in November for the third successive month, rising 2 percent (after seasonal adjustment) to 129 percent of the 1947-49 base period. For the first time in 1954 production reached its year-earlier level. Indications are that output continued to expand in December, as automobile assemblies increased by over a fourth between November and December, and other major industries raised production levels.

The bulk of the recent advances in production reflected increased output of durables. Between the July low and November, durable goods production moved up 7 percent; nondurables output increased only 4 percent. Production of durables has been substantially more volatile than nondurables in the past three years (see chart).

The pronounced changes in durable goods output largely reflect changes in the balance between inventories

and demand that occurred in 1953 and 1954. Inventories were accumulated at a rapid rate in the first three quarters of 1953 as output moved up 15 percent between the second quarter of 1952 (before the steel strike) and the third quarter of 1953. Manufacturers' sales advanced only 12 percent in the same period before declining in the fall of 1953. As a result the ratio of manufacturers' inventories to sales rose from 1.78 in the first quarter of 1953 to 1.92 by the fourth quarter. Reflecting the curtailment of production during most of 1954, inventories declined about 5 percent from their 1953 peak. In November the ratio of manufacturers' inventory book values to their sales was about 1.87, down from the peak but still above early 1953.

## Personal Income Rises

Personal income in November rose by \$1.3 billion to \$287.6 billion at seasonally adjusted annual rates. The advance carried the total to a high for 1954, and somewhat above November of the previous year. The increase from October was accounted for by higher wage and salary disbursements as private industry payrolls rose by \$1.2 billion, their largest advance in 1954, primarily because of increased activity in the automobile industry. Payrolls also moved upward in the electrical machinery, metal, and most major nondurable goods industries as well as in government employment.

Personal income in the first 11 months of 1954 was virtually the same as in the corresponding period of 1953. Wages and salaries were almost \$3 billion lower than in the January-November period of 1953, and proprietors' and rental income was also lower. However, these reductions were offset by higher personal interest and dividend income and by increased government transfer payments.

## Saving High

Individuals added \$2.7 billion to their liquid saving in the third quarter of 1954. This figure would have been considerably higher had it not been for a record \$2.3-billion advance in mortgage indebtedness, which offset other liquid saving. As it is, the figure is high by past standards, though below the second quarter level of \$2.9 billion and also a half billion dollars below that in the third quarter of 1953.

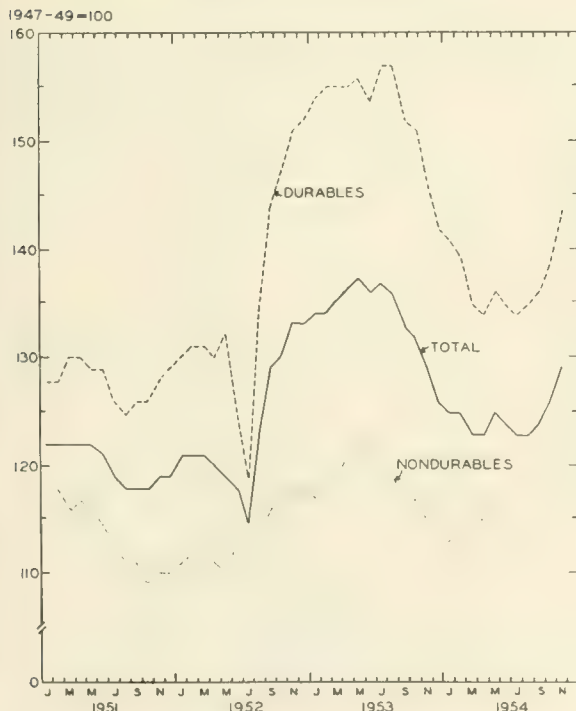
Saving in the form of bank deposits and currency holdings increased by \$3.5 billion in the third quarter, more than twice the increase in both the second quarter of 1954 and the third quarter a year earlier. Partly offsetting this was a substantial liquidation of security holdings during the third quarter. Purchases of government savings bonds and corporation securities were the same as in the third quarter of 1953, but other Federal and state and local government security holdings were reduced by \$1.9 billion, compared with an increase of \$300 million the year before.

## Strikes Low in 1954

Fewer man-days of work were lost in 1954 as a result of strikes than in any other postwar year. The total of 12 million man-days lost in 1954 was more than a third less than a year earlier. The number of strikes also dropped by a third from 1953, and was only slightly above the postwar low of 3,419 in 1948.

Fewer workers were involved in last year's strikes and

### INDUSTRIAL PRODUCTION (Seasonally adjusted)



Source: Federal Reserve Board.

big strikes were less numerous. In 1954, 1.5 million workers were idled by strikes compared with 2.4 million in 1953 and 2.0 million in 1948. Only 18 work stoppages involved 10,000 or more workers in 1954 as compared with 28 strikes involving this many workers in 1953. The largest number of these major strikes (seven) occurred in the construction industry.

## Dividend Payments Up

A record total of more than \$10 billion in cash dividends was paid out by corporations in 1954. This was somewhat more than a half billion dollars above disbursements in 1953. In part the advance reflected a shifting of payment dates on the part of many firms from December of 1953 to January, 1954, but higher rates per share in chemicals, electrical machinery, oil refining, iron and steel, printing, and other industries also contributed to the higher payments. Moderate declines in dividend payments occurred in the automobile, textile and leather, and nonferrous metal industries, as a result of rate reductions and dividend omissions by some firms.

## Business Failures Up Sharply

Business failures increased substantially in 1954 for the third consecutive year. Bankruptcies totaled 11,220, more than 25 percent above 1953 and over 45 percent higher than 1952.

All major industry groups reported increases in business failures of 20 percent or more. The largest increase occurred among commercial firms, up 35 percent. This group, however, accounted for the smallest share of total failures, 8 percent. Retail failures, accounting for half of the total in 1954, were 27 percent higher than the year before. The smallest advance, 23 percent, was in wholesale failures, which accounted for 10 percent of the total.

## Power Production

Electric power production in December averaged 9.7 billion kilowatt-hours per week, 14 percent higher than in December, 1953. For the year as a whole, output amounted to about 470 billion kilowatt-hours, nearly 7 percent above 1953 (see chart). This, however, compares with a gain of 10 percent between 1952 and 1953, and was the smallest year-to-year advance since 1949 when output increased only 3 percent over the previous year. Nevertheless the electric power industry represents one of the fastest growing industries in the United States. Since 1946, the first postwar year, power production has more than doubled.

The industry currently has in place over 100 billion kilowatts of capacity, compared with 50 billion in 1946. About 10 billion kilowatts were added to capacity in 1954 and an additional 13 billion is scheduled for 1955.

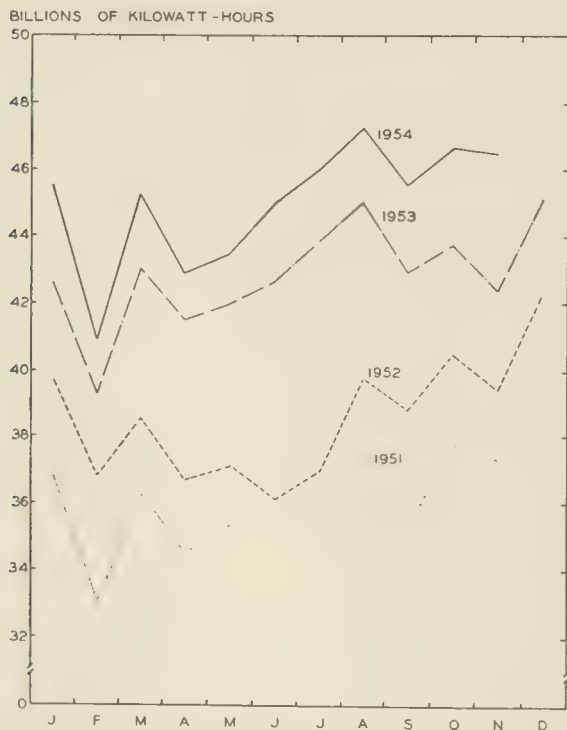
## Employment Off Seasonally

The number of jobholders in December fell seasonally by slightly over a million workers to 60.7 million. Both farm and nonfarm employment declined. Only a fifth of the drop was centered in nonfarm employment, however, which was slightly below its year-ago level. Census data in thousands of workers are as follows:

	December 1954	November 1954	December 1953
Civilian labor force.....	63,526	64,624	63,077
Employment.....	60,688	61,731	60,764
Agricultural.....	5,325	6,154	5,438
Nonagricultural.....	55,363	55,577	55,326
Unemployment.....	2,838	2,893	2,313

In contrast to the drop in employment, unemployment, at 2.8 million, was almost unchanged from its level in the previous two months.

## ELECTRIC POWER PRODUCTION



Source: U. S. Department of Commerce.

## Our Insatiable Appetites

(Continued from page 2)

ple will be faced with a choice between increasing their current consumption expenditures still further and taking advantage of the new and better products then available or of postponing such purchases, soothing their parched desires with anticipations, and bravely saving for the future. Our guess is that, laudable as one's original intentions may be, when one is faced with the latest model zooliac decorated in n-dimensional colors and equipped with an ultrasonic superpowered xyloscope, the decision in most cases will be obvious.

In essence, therefore, what seems likely is a reversal of the long-term decline and more recent stability in the proportion of the nation's income spent currently on consumption goods and, possibly, a return of this proportion toward its level in early colonial times. Thus, we may yet come to witness a new paradox of very high expenditures out of current income characterizing not only a primitive economy, but a highly developed one as well.

This does not mean that there will be no savings in the United States in later years, but rather that they will be relatively less and will be increasingly concentrated in such institutionalized forms as group insurance and pension funds. Above all, however, the urge for the Smiths to keep up with Joneses will be stronger than ever, which should not only leave them more comfortably situated but should make retailers and consumption economists happy as well.

RF



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Portable Power Plants

The Electro-Motive Division of General Motors Corporation has recently developed movable electric generating units. They are built into boxcars and van-type truck trailers.

The generators are built with a twofold purpose. They may be used to service disaster areas when the conventional power lines have been cut off. They may also be used where the current demand is so seasonal or so temporary that it is not considered economical to put in permanent power lines. In this capacity they may prove useful to power companies who are operating near capacity to supply extra power when needed in their district.

The capacities of the various models range from 350 kilowatts up to 1,000 kilowatts. When more power is needed the units can readily be coupled together. The units are made with standardized parts for easier and less expensive repairs.

General Motors expects to sell the largest units for about \$90 per kilowatt of capacity.

### Postwar Growth in Business Population

In the years since World War II, the business population of the United States has increased by almost 50 percent. As may be seen in the chart below (which shows year-to-year increases), the large proportion of this growth, over 80 percent of it, occurred in the first half of the period. This reflects the reduced size of the business population because of sharp curtailments during the war and the quick return of veterans to civilian work.

Construction firms, in response to swollen housing demands, increased at a more rapid rate than any other type of business throughout the period, tripling their numbers since 1944. Wholesale firms, with the next largest gain, increased 68 percent, while the number of

retail trade firms followed next in line, advancing 43 percent. The number of firms engaged in manufacturing rose 31 percent in the first five years of the period, but has actually declined slightly in the past five years.

The increase in the number of business firms has not been uniform throughout the nation. The Far West, Southwest, and Southeast experienced the largest growth, between 75 and 80 percent. In other portions of the nation the rises varied from 32 to 47 percent. In all regions the large movement came in the first five years, with smaller increases, and even a decline in New England, during 1949-54.

### Robots in Charge

More and more machines are being developed to make man's work easier, faster, and more accurate. Among the recent developments is the "Toll-O-Matic," a robot highway toll collector which does not need an attendant. The machine can sort the coins placed in it, make change, and reject slugs. If a car drives through without paying the toll, it sets off an alarm. A printing device is attached to the robot which keeps a record of all the financial transactions of the machine. The "Toll-O-Matic" is manufactured by Taller and Cooper, Incorporated, of Brooklyn, New York.

On trial in department stores of New York and Los Angeles is a new system made up of a tag reader, keyboard, cash drawer, and a tape perforator. Price tags, pre-punched for the "Point O'Sale Recorder," are inserted into the machine which then prints the customer's receipt, opens the cash drawer, and punches the information on the tape. The tape can later be used for further processing. The maker, the Telecomputing Corporation of Burbank, California, plans to sell the system at prices ranging around \$3,000.

Billboard advertising may get a boost with a new electronic device which will turn the board lights on when a car approaches at night and off after the car has passed. This is done by connecting the lighting fixtures to a photoelectric cell which acts like an electric eye to turn the lights on whenever the beams from auto headlights strike the cell. This item, to sell for less than \$50, is manufactured by the Tork Clock Company of Mt. Vernon, New York.

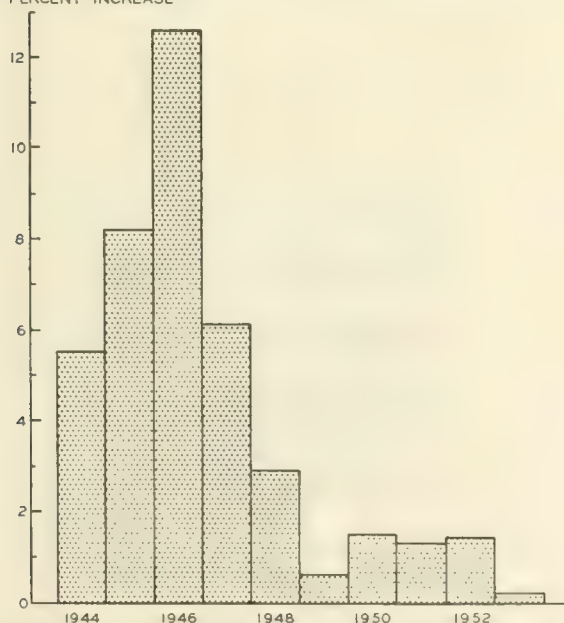
### Remodeling Construction Statistics

The United States Departments of Commerce and Labor have combined efforts to compile a new monthly periodical, *Construction Review*, presenting almost all of the current statistics on construction which are prepared by the Federal government. This new periodical is designed to take the place of both *Construction and Building Materials*, issued by the Department of Commerce, and *Construction*, issued by the Department of Labor.

*Construction Review* will contain information on new construction, construction costs, production of building materials, housing starts, building permits issued, and construction employment. There will also be analytical and outlook articles. Publication begins with the January, 1955, issue. Subscriptions may be obtained from the Superintendent of Documents, Government Printing Office, Washington 25, D. C., for \$3 per year, or 30 cents for single copies.

### ANNUAL BUSINESS POPULATION GROWTH

PERCENT INCREASE



Source: *Survey of Current Business*, November, 1954.

# DECENTRALIZATION OF INDUSTRIAL AND COMMERCIAL BUILDING\*

DOROTHY K. NEWMAN, Bureau of Labor Statistics

The flight of industrial and commercial building to the suburbs and other outlying areas in recent years is an obvious phenomenon. However, the extent of the shift in the location of business building and the rate at which it has been taking place have never been measured. This is true in spite of the record \$17½ billion of new plant and commercial building during the past five years and the impressive economic impact on local areas of sizable changes in the geographic spread of such construction.

## New Series Locates New Building

The United States Labor Department's recently inaugurated statistical series on building-permit activity promises to contribute a great deal toward filling this void in information about where new industrial and commercial plants are being built. This new set of monthly statistics, which begins with January, 1954, data, provides the first detailed information on a current basis about the geographic distribution of new building construction. It measures nationally, and for 24 individual metropolitan areas, the extent of suburban as against central-city building in metropolitan areas, and gives an indication of the relative amount of building construction in places outside of metropolitan-area boundaries.<sup>1</sup>

The statistics represent the total amount of building construction in all places having building-permit systems and are based on reports of building-permit activity to the Labor Department's Bureau of Labor Statistics from almost all such places—upwards of 7,000. Of course, the geographic coverage of such a series is limited, since not all places have permit systems. On the other hand, the building-permit universe covers almost the entire nonfarm population of metropolitan areas (94 percent). Even in the South where building-permit systems are less common than elsewhere, the BLS series represents nearly 90 percent of the nonfarm population in metropolitan areas.

However, the series covers only about half (52 percent) of the nonfarm population in all nonmetropolitan areas. This is less restrictive than it seems, because recent study shows that places with building-permit systems are likely to be larger and show more activity than the others. As a result, building activity reported by nonmetropolitan permit-issuing places represents a larger proportion of all nonmetropolitan building construction than is suggested by examination of population data alone. Thus, if the geographic distribution of all new

building construction were available, it would probably show only a slightly smaller proportion of central-city and suburban building than is evident from the building-permit series, and a little larger proportion of building in nonmetropolitan places.

## Location of Industrial Building

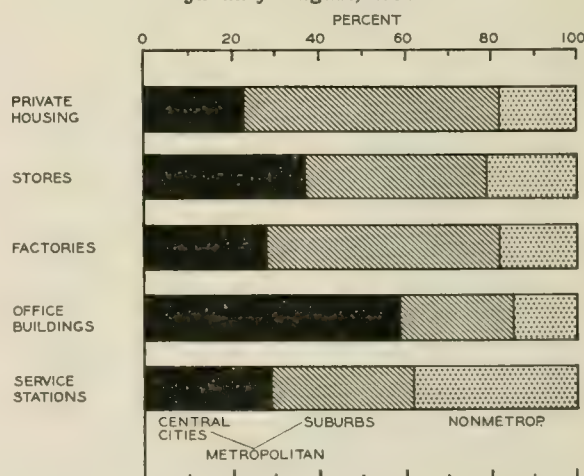
Construction of new factories appears to be taking place mostly in the metropolitan fringe (see chart). According to building-permit statistics for the first eight months of 1954, new industrial plant expansion is second only to housing in the degree of concentration in suburban places, with well over half the value of all new factory building for which permits were issued destined for areas outside, but in the orbit, of the central cities.

These statistics suggest that most plant construction halts near enough to urban centers to take advantage of their power and transportation lines, and of the large labor supply, markets, and resources of the metropolitan area, while at the same time enjoying the cheaper and more plentiful land available in the suburbs. A large site is necessary for modern plant construction, which is characterized by single-story design, open-site planning, and generous off-street parking and loading facilities. Also, new industrial facilities are planned to include room for expansion and for many employee amenities, such as recreation areas.<sup>2</sup> Sites large enough for these purposes appear to be available within metropolitan areas, but mostly outside of the central cities.

This suburban trend is not new. A special analysis of the economic base of all cities of 10,000 population or more in 1950 shows that the 287 suburban cities of this size were more industrialized than either the 184 central metropolitan cities or the 521 independent cities outside of metropolitan areas.<sup>3</sup>

The national dispersion policy has not prevented suburban location of industrial plants. The original policy initiated in August, 1951, advocated construction of new

LOCATION OF BUILDING ACTIVITY†  
January-August, 1954



† Valuations as reported on building permits issued in all building-permit-issuing places.  
Source: U. S. Department of Labor.

\* Opinions expressed by the author are her own and do not necessarily reflect the views of the United States Department of Labor.

<sup>1</sup> For a brief history of this series, and a more detailed description of its coverage, see the article "New BLS Building-Permit Activity Series" in the November-December, 1954, issue of *Construction*, in which publication of the new statistics was initiated. Reprints of the article and copies of *Construction* are available from the U. S. Department of Labor, Bureau of Labor Statistics, Washington 25, D. C., on request.

<sup>2</sup> See Dorothy A. Muncy, "Space for Industry: An Analysis of Sites and Location Requirements," in *Technical Bulletin No. 23* of the Urban Land Institute, July, 1954.

<sup>3</sup> Victor Jones, "Economic Classification of Cities and Metropolitan Areas," in *The Municipal Year Book*, 1953, pp. 49-57.



defense facilities in locations 10 miles or more from existing potential target areas, but not necessarily in new or remote communities. It encouraged location in satellite towns within existing major marketing areas. After more precise definition of a target area in 1952, the national policy provided for a 10-mile buffer zone around each residential concentration of 200,000 persons or around each industrial concentration of 16,000 workers in defense-supporting plants.<sup>4</sup> Although this latter policy also does not preclude location in many metropolitan suburban areas, there would be a stronger tendency to locate in nonmetropolitan areas under this than under the earlier policy.

Industrialization of the suburbs, as measured by building-permit activity appears to vary between regions of the country (Table 1). During the first nine months

**Table 1. Location of New Industrial Building\*  
January-September, 1954**

Region	Valuation (in millions)	Percent in			
		Metropolitan areas			Non-metropolitan areas
		Total	Central cities	Suburbs	
United States...	\$492	82	28	54	18
Northeast...	122	93	32	61	7
North Central...	160	82	28	54	18
South...	118	70	28	42	30
West...	92	84	24	60	16

\* Based on the owner's or builder's valuation as reported on local building permits.

of 1954, concentration of industrial building in the suburbs was greatest in the Northeast and West, and least in the South. In all four regions, the central cities absorbed somewhat the same proportion of plant expansion (between a fourth and a third).

The broadest differences between regions occurred in the amount of building-permit activity going into the nonmetropolitan localities, which claimed 30 percent of all industrial building for which permits were issued in the South during the nine-month period, and only 7 percent in the Northeast. This difference is significant, since the regions vary little in the degree to which their nonmetropolitan areas are covered by permit systems, and each reported a sizable share of the half a billion dollars of new factory building authorized by permits during the first three-fourths of 1954.

Although it is difficult to generalize without comparable figures for previous years, substantially more of the industrial expansion in the South may be occurring in outlying localities beyond metropolitan areas than is true of the other regions. It is possible that the regions vary in the type and size of plant to be accommodated and that these differences affect the choice of sites. It may be important that almost a third of the total construction value of all industrial projects assisted by certificates of necessity and rapid tax amortization has gone to the South. This proportion was equaled only by the North Central States. Also important in this connection is the fact that, unlike the other regions, the South showed greatest industrialization in 1950 among its hitherto nonmetropolitan cities of 10,000 population or more, rather than among its suburban or central cities of the same size.

<sup>4</sup>William J. Platt, "Industrial Defense: A Community Approach," in *Bulletin of the Atomic Scientists*, September, 1953, p. 262.

## Location of Stores

Store building followed housing and industrial construction in the degree of concentration in suburban areas. Over two-fifths of the \$555 million of store building authorized by local permits during the first eight months of 1954 was scheduled for construction in the fringe of metropolitan areas. A little less than two-fifths was to be built in central metropolitan cities, and about a fifth in nonmetropolitan places. This is in contrast with office building, which is still largely a central-city phenomenon, and with gasoline and service station construction, which occurs more often outside of metropolitan areas (principally along the highways) than in the metropolitan suburbs or central cities.

Shopping centers account for a great deal of the new store building in the suburbs. The huge regional and smaller community shopping centers are necessary adjuncts to the new and growing neighborhoods on the outskirts of major cities. There have been no systematic studies of the ratio of shopping-center construction to the total in the suburbs, but trained observers in this field estimate roughly that well over half of suburban commercial development is in such centers, which usually provide a variety of shops and services and extensive off-street parking.

## Building in the Chicago Metropolitan Area

Chicago is typical of many other large metropolitan areas in the distribution of new building construction. Three-fourths of all the new building reported in the Chicago metropolitan area during the first eight months of 1954 was to be constructed outside of the city proper (Table 2). School and home building were followed by store and factory building in degree of concentration in the suburbs. The only types of building that predominated in the central city were such accommodations as hospitals, commercial garages, and office buildings. Suburbanization of these facilities is probably not far distant, however, as many suburban communities grow into large, almost self-contained towns. Even now, a third of the office building reported for the Chicago metropolitan area in the first eight months of 1954 was in the suburbs.

**Table 2. Location of Selected Types of New Building  
in the Chicago Metropolitan Area\*  
January-August, 1954**

Type of building	Valuation (in millions)	Percent in	
		Central cities	Suburbs
All building construction.....	\$583.3	26	74
Private housing.....	390.9	18	82
Commercial building.....	45.3	44	56
Amusement buildings.....	3.0	40	60
Commercial garages.....	3.7	84	16
Gasoline and service stations..	2.9	45	55
Office buildings.....	6.0	68	32
Stores and other mercantile building	29.6	34	66
Community buildings.....	44.8	36	64
Educational buildings.....	25.5	15	85
Institutional buildings.....	8.1	89	11
Religious buildings.....	11.1	45	55
Industrial buildings.....	23.3	37	63

(Components do not add to totals because of rounding.)

\* Based on the owner's or builder's valuation as reported on local building permits and on an estimate of the value of building in nonpermit-issuing places.

# LOCAL ILLINOIS DEVELOPMENTS

With the exception of seasonal declines in petroleum production and construction contracts awarded, most indicators of business in Illinois moved up during November. Gains of more than 10 percent were recorded in coal production, utilization of steel capacity, and department store sales. Business loans at leading Chicago banks rose almost 5 percent from October, partly because of increased inventory needs of retailers.

Despite the large seasonal decline, construction contracts awarded continued above 1953 levels to reach a new peak.

## Population Records in 1954

Illinois experienced a natural population increase (births minus deaths) of 122,500 persons last year. Deaths declined to 92,500 to set a new low in rate per 1,000 population, whereas births increased 5 percent to a new absolute high of 214,000. The actual number of Illinois children having birthdays in 1954 is estimated to be even higher—about 217,000—because of the number of women in border counties who go to hospitals in neighboring states to have their babies.

The January 1, 1955, estimate of the State population is 9.2 million persons. This figure is subject to revision, however, as more information becomes available on migration into and out of the State.

## Fuel Production in Illinois

Production of the major fuels has been on the decline for the past several years in Illinois. The amount of coal from Illinois mines is down almost 40 percent from 1947, as may be seen in the chart below. Gas production has declined almost as much. Oil extracted, on the other hand, declined mildly for the first years of the period shown, but picked up in 1954 to about the 1947 level.

The chief factor in the decline in coal production has been the virtual loss of a major market. The railroads have steadily switched from coal-powered engines to Diesel-powered locomotives. In Illinois, sales to railroads dropped 88 percent in the past 10 years. As a result,

whereas almost one quarter of the State production once was consumed by railroads, the figure in 1954 was only about 5 percent.

The decline in gas production in Illinois is the result of quite a different phenomenon. It stems rather from the depletion of supply. Two of the major gas fields in Illinois, Russellville and Ayers, have been nearly exhausted. While some new gas fields have been discovered, they cannot be opened for use until the availability of enough gas is assured to justify building pipe-lines and other means of transportation from fields to markets.

The pattern of oil production is also the result of supply conditions. The production of new wells has not been enough to offset the decline in that of older wells. In the past year, however, intensive efforts have been made at secondary recovery from old fields, which has bolstered State oil production considerably.

## Early Christmas Sales Rush

Retail sales in Illinois rose sharply during the month of October, 1954, and the trend in department store sales indicates that this movement continued through November. Despite the increase, however, sales generally remained depressed relative to year-ago levels.

October retail sales were up between 5 and 10 percent in most of the larger Illinois cities. Aurora and Joliet registered the only declines, 1 percent and 3.6 percent respectively. These two areas also showed substantial declines relative to a year earlier, 7 percent in Aurora and almost 18 percent in Joliet. In this, however, they were followed by most of the cities listed on the opposite page, with only five gaining over October, 1953.

Department store sales in Illinois cities studied surged forward during November as the Christmas buying rush really got under way. Every city reported an advance over October, ranging from 1 percent in Decatur to 29 percent in Elgin. Relative to November, 1953, more cities experienced lower sales than reported higher sales. However, on balance the gains outweighed the losses to put November department store sales in Illinois in 1954 ahead of 1953.

## Industrial Development in Chicago

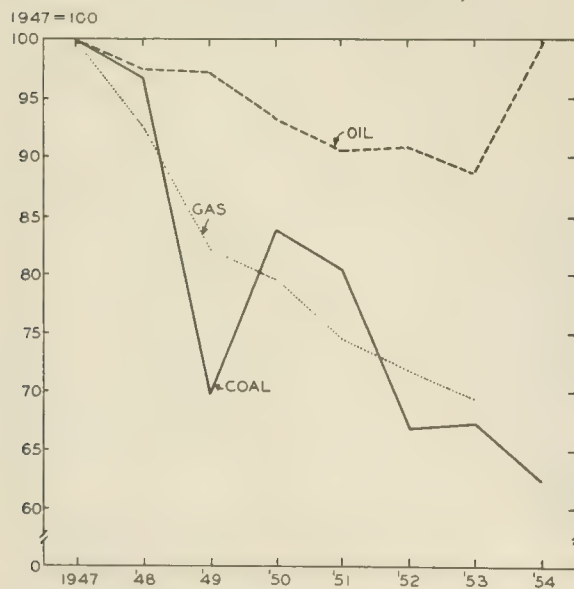
In the past 15 years more than \$3.2 billion has been spent on industrial developments in the Chicago area. According to the Chicago Association of Commerce and Industry, this total is greater than that of any other metropolitan area in the nation. The projects include new plants, expansions of existing facilities, and land or buildings acquired for future development.

The year 1954, with expenditures of \$232 million, marks the largest peacetime annual total for the period. It is exceeded only by expenditures in the early years of World War II, \$313 million in 1941 and \$462 million in 1942, and in the first years of the Korean outbreak, \$325 million in 1950 and \$402 million in 1951.

Despite early fears, dollar expenditures for development in 1954 substantially exceeded the 1953 level, by more than 63 percent. However, the number of projects begun in 1954 fell far below that in 1953, thereby illustrating the predominance of large undertakings in the past year.

The fields of petroleum refining, chemicals, and steel dominated development in 1954, accounting for many of the larger projects. The smaller projects, however, were in widely diversified facilities in keeping with the varied activity of the Chicago area.

ILLINOIS FUEL PRODUCTION, 1947-54



Sources: Illinois Department of Mines and Minerals; Illinois Geological Survey.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

November, 1954

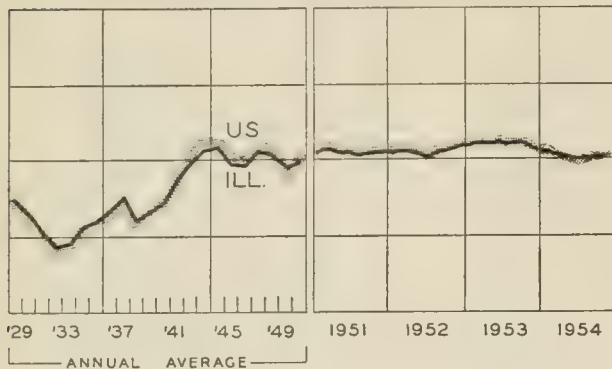
		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b>		<b>\$25,728<sup>a</sup></b>	<b>940,572<sup>a</sup></b>	<b>\$523,883<sup>a</sup></b>		<b>\$12,759<sup>a</sup></b>	<b>\$16,385<sup>a</sup></b>
Percentage Change from	Oct., 1954.	-20.8	+1.5	+6.3	+13	+3.9	+13.7
	Nov., 1953.	+23.8	+0.5	-5.8	+3	+6.5	+9.7
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b>		<b>\$16,799</b>	<b>719,715</b>	<b>\$378,921</b>		<b>\$11,614</b>	<b>\$14,590</b>
Percentage Change from	Oct., 1954.	-35.5	+1.8	+6.6	+13	+4.2	+14.9
	Nov., 1953.	+0.1	-1.5	-6.8	+3	+6.2	+10.3
<b>Aurora</b>		<b>\$ 222</b>	<b>n.a.</b>	<b>\$ 7,308</b>		<b>\$ 48</b>	<b>\$ 108</b>
Percentage Change from	Oct., 1954.	-45.5		-1.0	+8	+0.0	+1.9
	Nov., 1953.	+93.0		-6.9	-1	+4.6	+9.6
<b>Elgin</b>		<b>\$ 364</b>	<b>n.a.</b>	<b>\$ 5,449</b>		<b>\$ 33</b>	<b>\$ 122</b>
Percentage Change from	Oct., 1954.	-28.2		+3.0	+29	+4.4	+24.3
	Nov., 1953.	-24.9		-7.1	+8	+8.1	-0.5
<b>Joliet</b>		<b>\$2,189</b>	<b>n.a.</b>	<b>\$10,935</b>		<b>\$ 63</b>	<b>\$ 113</b>
Percentage Change from	Oct., 1954.	+252.5		-3.6	+3	+1.1	+30.6
	Nov., 1953.	+676.2		-17.7	-2	+6.7	+26.4
<b>Kankakee</b>		<b>\$ 156</b>	<b>n.a.</b>	<b>\$ 5,481</b>		<b>n.a.</b>	<b>\$ 42</b>
Percentage Change from	Oct., 1954.	+31.1		+5.0	n.a.		+8.9
	Nov., 1953.	+44.4		-5.4			+12.1
<b>Rock Island-Moline</b>		<b>\$ 936</b>	<b>20,195</b>	<b>\$ 9,663</b>		<b>\$ 83<sup>b</sup></b>	<b>\$ 172</b>
Percentage Change from	Oct., 1954.	+6.6	+8.7	+7.9	n.a.	+1.9	+15.9
	Nov., 1953.	+96.6	+9.3	-1.2		+3.8	+15.7
<b>Rockford</b>		<b>\$1,198</b>	<b>31,130</b>	<b>\$16,245</b>		<b>\$ 133</b>	<b>\$ 195</b>
Percentage Change from	Oct., 1954.	+41.9	-2.3	+4.1	+13 <sup>c</sup>	-1.7	+5.0
	Nov., 1953.	+99.3	-1.7	-5.8	-1 <sup>c</sup>	+2.1	+3.6
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b>		<b>\$ 64</b>	<b>7,057</b>	<b>\$ 5,501</b>		<b>\$ 54</b>	<b>\$ 76</b>
Percentage Change from	Oct., 1954.	-86.0	+7.5	+7.6	n.a.	-5.3	-13.9
	Nov., 1953.	-61.2	+5.4	-7.7		-1.1	-21.1
<b>Champaign-Urbana</b>		<b>\$ 330</b>	<b>9,419</b>	<b>\$ 7,441</b>		<b>\$ 55</b>	<b>\$ 100</b>
Percentage Change from	Oct., 1954.	+233.3	+2.5	+2.9	n.a.	-9.0	-0.8
	Nov., 1953.	+135.7	+11.7	-3.4		+6.8	+5.2
<b>Danville</b>		<b>\$ 158</b>	<b>9,746</b>	<b>\$ 6,092</b>		<b>\$ 46</b>	<b>\$ 58</b>
Percentage Change from	Oct., 1954.	+5.3	+0.3	+7.9	+7	-5.7	+5.3
	Nov., 1953.	-1.3	+11.7	+0.1	-1	+13.2	-6.7
<b>Decatur</b>		<b>\$ 814</b>	<b>27,004</b>	<b>\$11,204</b>		<b>\$ 111</b>	<b>\$ 111</b>
Percentage Change from	Oct., 1954.	+18.7	+4.6	+6.5	+1 <sup>c</sup>	+1.1	+3.4
	Nov., 1953.	+116.5	+17.7	+4.4	-2 <sup>c</sup>	+20.9	+14.5
<b>Galesburg</b>		<b>\$ 274</b>	<b>7,084</b>	<b>\$ 4,327</b>		<b>n.a.</b>	<b>\$ 38</b>
Percentage Change from	Oct., 1954.	+109.2	+4.9	+5.5	n.a.		+12.9
	Nov., 1953.	+114.1	+7.6	-0.1			+9.7
<b>Peoria</b>		<b>\$ 786</b>	<b>46,341<sup>c</sup></b>	<b>\$16,805</b>		<b>\$ 200</b>	<b>\$ 256</b>
Percentage Change from	Oct., 1954.	+99.5	+3.7	+7.3	+12 <sup>c</sup>	+5.5	+14.8
	Nov., 1953.	+252.5	+13.1	-2.2	+4 <sup>c</sup>	+7.3	+10.7
<b>Quincy</b>		<b>\$ 82</b>	<b>7,570</b>	<b>\$ 5,088</b>		<b>\$ 40</b>	<b>\$ 70</b>
Percentage Change from	Oct., 1954.	-53.4	-5.5	+8.7	+9	+5.0	+2.6
	Nov., 1953.	-54.7	+5.2	-1.3	+8	+17.2	-6.7
<b>Springfield</b>		<b>\$ 988</b>	<b>26,855<sup>c</sup></b>	<b>\$13,719</b>		<b>\$ 100</b>	<b>\$ 187</b>
Percentage Change from	Oct., 1954.	+172.9	-5.3	+7.9	n.a.	-0.2	-16.7
	Nov., 1953.	+370.5	+6.6	+3.4		+14.9	+0.8
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b>		<b>\$ 52</b>	<b>11,219</b>	<b>\$ 9,866</b>		<b>\$ 148</b>	<b>\$ 65</b>
Percentage Change from	Oct., 1954.	-71.4	-7.3	+7.5	n.a.	+10.4	-10.0
	Nov., 1953.	-63.1	-8.8	+1.8		+17.3	-8.1
<b>Alton</b>		<b>\$ 95</b>	<b>11,259</b>	<b>\$ 5,321</b>		<b>\$ 34</b>	<b>\$ 33</b>
Percentage Change from	Oct., 1954.	-41.4	-7.9	+16.7	n.a.	+1.0	+3.5
	Nov., 1953.	-26.9	+5.2	+0.9		+4.1	-2.5
<b>Belleville</b>		<b>\$ 221</b>	<b>5,980</b>	<b>\$ 4,516</b>		<b>n.a.</b>	<b>\$ 47</b>
Percentage Change from	Oct., 1954.	-10.9	-1.6	+6.1	n.a.		+1.3
	Nov., 1953.	+202.7	+12.1	-1.7			+20.4

<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for October, 1954, the most recent available. Comparisons relate to September, 1954, and October, 1953. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

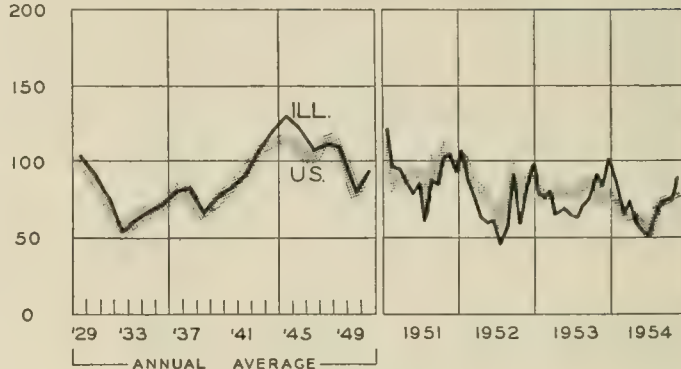
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

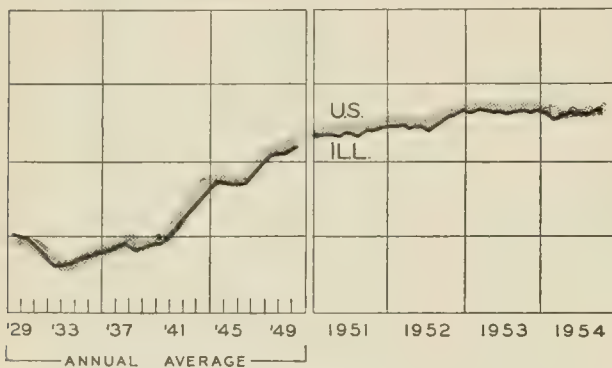
EMPLOYMENT - MANUFACTURING



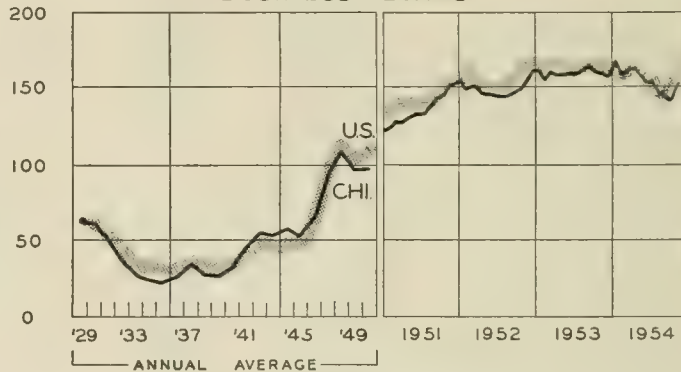
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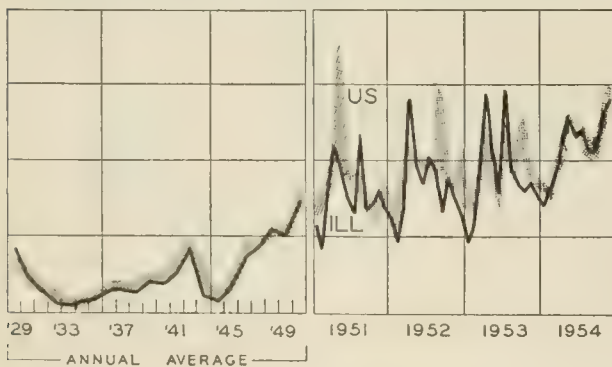
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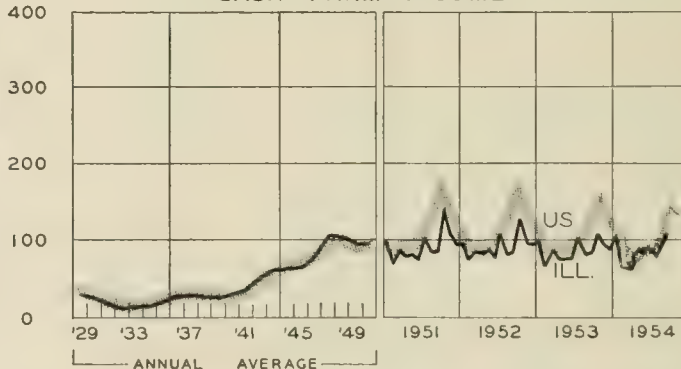
BUSINESS LOANS



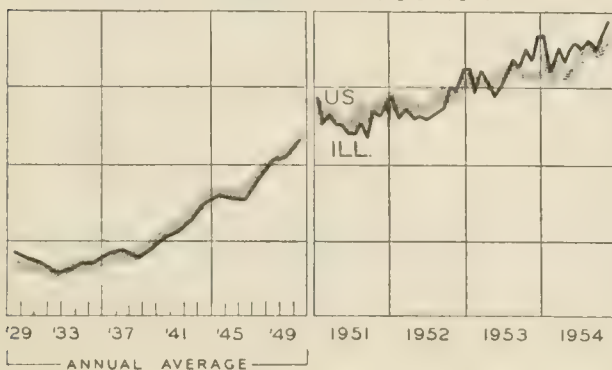
CONSTRUCTION CONTRACTS AWARDED



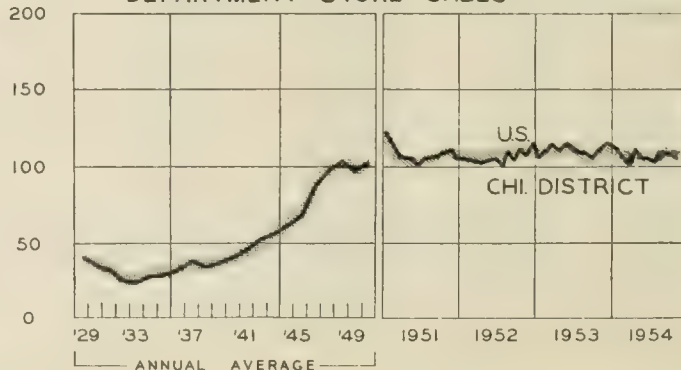
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME XII

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## HIGHLIGHTS OF BUSINESS IN JANUARY

Industrial activity continued at a high level in January. The Federal Reserve Board index of industrial production for the month was expected to register a further increase from the December seasonally adjusted index of 130 (1947-49 = 100).

Activity in the durable goods industries particularly was marked by renewed strength. Automotive production has been going full blast, with January assemblies of passenger cars reaching 660,000, a record for the month. There was further improvement in steel output, with operations slated at more than 85 percent of capacity the last week of January compared with 81 percent early in the month.

Indicative of the pickup in industrial activity was a rise in electric power production in January to a new high for the month. In the last week of the month, production exceeded 10 billion kilowatt-hours, more than 12 percent above the corresponding week of 1954.

Unemployment, however, rose seasonally as employment in retail trade and construction dropped. An increase of half a million raised over-all unemployment to 3.3 million. The number of workers with jobs fell by about the same amount, to 60.2 million, with the entire cut occurring in nonfarm activity.

Sales of retail stores totaled \$13.3 billion for January, only 1 percent less than December sales after seasonal adjustment and 10 percent over the previous January.

### Record January Construction

Building activity during January was at a record level for the month. The drop from December to \$2.8 billion was smaller than usual and left expenditures 13 percent above the previous peak for January, set in 1954.

Private construction outlays during the month totaled \$2.0 billion, nearly a fifth higher than in January, 1954, chiefly as a result of the continuing high level of home building. Residential building was a third greater than in January last year. Private nonresidential expenditures were up about 5 percent, but public construction was unchanged from the year before, as larger state and local spending offset cuts in Federal expenditures.

### New Treasury Offering

Another long-term issue has appeared in Treasury financing operations. A 40-year, 3-percent bond was offered late in January, together with a 13-month, 1½-percent note and a 2½-year, 2-percent note, in refunding

\$15 billion of securities which were to mature by March 15. A 30-year bond had been issued in 1953, but the present 40-year offering was the longest government issue since 1911, when a 50-year bond was offered to cover part of the cost of the Panama Canal.

Early in February, Treasury officials announced that \$1.9 billion (73 percent) of the long-term issue had been bought by investors. The 2½-year note produced another \$3.8 billion and the 13-month note \$8.5 billion.

### Personal Income Up

Personal income registered a further gain in December, advancing to a record \$291 billion at a seasonally adjusted annual rate. This was nearly \$2 billion higher than in November and \$4 billion more than in December, 1953.

Most of the increase from the preceding month resulted from larger-than-usual year-end payments of extra and special dividends. Proprietors' and rental income and transfer payments both showed small gains, but wage and salary income dropped slightly.

For 1954 as a whole, personal income amounted to \$286.5 billion, about the same as in 1953. Disposable income, however, was up \$3.5 billion to \$254 billion, mainly as a result of the cut in Federal income tax rates.

### Stock Market Study

Stock market operations and the role of the stock market in the economy will be examined closely during the next few weeks by the Senate Banking Committee. The committee is particularly interested in whether the present high level of stock prices and the long rise that led up to it need occasion any concern. In arriving at the answer to this question, the committee will study the adequacy of present government regulations relating to the stock market and whether a continuation of the price rise at recent rates would be dangerous to the American economy.

Among other things, they will look into the reasons for the recent rise, similarities with 1929, the movements by industry of the important stock indexes since 1915, a breakdown of stock ownership, the use of credit in financing stock purchases, stock prices compared with earnings, dividends, and book value per share since 1915, and the history of stock exchanges and their regulation. Questions on these points and others have been submitted to experts in the field, and public hearings are slated to begin February 23.

# ILLINOIS BUSINESS REVIEW

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## Investing in the Stock Market

"The stock market is a fascinating place to keep away from." This is the attitude of many people when considering where to place their savings. Many of these people had their fingers badly burnt by the stock market crash of 1929 and have since then vowed never to "get stuck again." With the recent boom in stock prices, however, increasing interest is being evidenced in the market, and the flow of individuals' savings into stocks may well rise to new highs.

There is nothing wrong in this of itself, and some people have the knowledge, or the luck, to do very well by their investments. Unfortunately, however, the extent of information regarding the stock market does not seem to be very great, and the problem of investing in stocks appears to be clouded with a number of misconceptions. In this piece we shall attempt to point out certain of these misconceptions, which are stated in italics, and present some of the facts of the situation as we see them.

### What Not to Believe

*The stock market is highly speculative and is a place to keep away from.* Certainly, buying stocks is a speculative proposition. So is life itself, for that matter.

At the same time, however, it should be noted that the actions of individuals at times contribute more to the speculative nature of stocks than the character of the stock market as such. There are two types of actions in particular which tend to give investors the feeling of being on a roller coaster. They are: (1) investing money which may be needed for living expenses or for some other purpose at a definite time in the future, (2) selecting stocks on the basis of rumors, tips, hunches, or on the basis of "potentials" rather than actualities. To invest money which is needed at a future date is highly inadvisable because it may place one in a position of having to sell at a time when prices are temporarily depressed or when the market for that stock is weak. Basically, buying or selling stocks is like buying or selling anything else—one generally gets the best deal when he can trade at a time which suits him, not at a time when he has to trade.

If one's selection of stocks is based on the large amount of factual information available on most companies, especially those registered with organized exchanges, one is far less likely to get "stuck" than by

gambling on a situation where there is a "possibility" that a company with no foreseeable prospects may suddenly encounter a windfall. This does not mean that there will be no risk but rather that for people with available funds the risk is commensurate with the larger potential gains that may accrue from careful investment based on the facts of the situation. Unfortunately, many people tend to use these facts like a drunk uses a lamppost—for support and not for enlightenment.

*The stock market is a safe outlet for all investment.*

This is an outlook found most frequently among young people who may have profited considerably from the bull market of the past few years and who have had no contact with the depressed market of the thirties. Unfortunately, retired people with pensions are often induced to act on this basis also, at times with disastrous results. It cannot be overemphasized that people would be wise to invest in the market only that portion of savings over and above what may be needed in the foreseeable future. For spending and saving purposes, one's liquid resources are best divided into three types: money for current living expenses, reserves (in savings accounts for possible emergencies), and "extra" savings. It is only money from this latter fund that the average family should consider putting into stocks.

*People buy stocks only when they want to get rich quick.* Nothing could be farther from the truth. Most people buy stocks from the long-run point of view—either because they want higher returns than are offered by savings institutions (and are willing to take such risks as are associated with stock purchases) or because they seek appreciation of their capital over a period of many years. It does happen at times that the capital appreciation occurs much more rapidly than one has expected, resulting in unexpected windfalls, but as a rule only professional traders operate with this objective in mind. Of course, there are some individuals who attempt to do the same thing, but the gains that they make from such activity are usually quite small after deduction of capital gains taxes and doctor bills for treatment of ulcers.

*If you have some spare cash that's not needed for a few months, put it in stocks and take it out when you need it.* To do so would be asking for trouble. As pointed out earlier, to be forced to sell at a given time places one at the mercy of all sorts of erratic developments. Moreover, with small purchases particularly, the price of the stock would have to rise appreciably solely to offset brokerage charges.

*Don't buy stocks unless you're reasonably sure of getting your money back at any time.* This depends largely on the purpose for which the stocks are bought. If they are to be held for the long pull, and if the money is hardly likely to be needed anyway, it is of no relevance whether or not the full value of the investment can be reclaimed at a particular time.

Well, one may ask, if the price of a stock is likely to be lower at some future time, why not wait till then to make the purchase? The answer is that one can never be sure: the price may be lower or it may be considerably higher. If a price decline is fairly certain, then waiting may be the best procedure. As a rule, however, if one thinks the price of a stock is reasonable, there is not much to be gained from waiting in the hope of future declines.

*Blue chip stocks are sounder buys than other stocks.* (The so-called blue chips are generally the leaders of

(Continued on page 6)



### PUBLIC EDUCATION IN ILLINOIS

Few people are likely to think of education in listing the principal resources and industries of Illinois, although a state's educational facilities are clearly one of the most basic resources that it can have. In Illinois the principle of public education was first established by the free school law of 1825. This law was designed to take advantage of the United States Ordinance of 1785 which reserved the sixteenth section of every township of public land for the maintenance of public schools within the township, and also included for school operations 5 percent of the net proceeds of the sale of the public lands within the State.

It was not until 1854, however, that the separate office of State Superintendent of Public Instruction was created. In 1855 a Common School Fund was established and after 1860, common school districts commenced to provide both elementary and secondary educational programs. The later consolidation of two or more districts increased enrollment and provided financial stability.

Further stability was provided in 1917 by the enactment of a law which permitted the organization of community high school districts. All territory within a county not included within a high school district was considered a "non-high" district and had to levy a tax on property to finance a four-year high school program.

#### Educational Facilities and Programs

For purposes of education, Illinois is divided into 2,349 school districts, including 1,708 elementary, 314 secondary, and 327 unit districts. The unit districts consist of areas operating grades one through twelve, and thus are able to qualify for more State aid than the smaller individual elementary and secondary districts. Each district participates in an equalizing program which provides for a basic support of \$173 per child, with the State paying the difference between this figure and the amount per pupil raised locally. In addition, a flat grant is made of \$22 per child enrolled in grades one through eight, and \$7 per child in grades nine through twelve.

In the field of higher education, the University of Illinois is perhaps the most prominent of the institutions receiving State support. Its principal support is provided by the State through specified taxation and through appropriations from general revenue.

Southern Illinois University at Carbondale, established in 1874 as a two-year normal school, received the status of a university in 1943. It has a comprehensive program for teacher education, arranged to fit the educational needs of southern Illinois.

The normal-school movement began at an early date in Illinois with the first school, Illinois State Normal University, being established in 1857 at North Bloomington (Normal). Others which followed were the Western Illinois Teachers College at Macomb, Northern Illinois State Teachers College at DeKalb, and the Eastern Illinois State College at Charleston. The main function of these normal schools is to qualify people for teaching as prescribed by the Department of Registration and Education.

The transportation of school pupils, school lunch programs, health, physical education, and special educational programs for exceptional children (retarded as well as advanced) also raise problems which require State aid. In addition, vocational education, veterans' training, civil defense, audio-visual, and adult education programs are also included under public education in Illinois.

#### The Coming Deluge

Reflecting the higher birth rate of the war and post-war years, enrollment in Illinois public schools last year exceeded 1.4 million, which was 17.9 percent more than in 1949. Further substantial increases in school enrollment are expected, with a peak in 1960.

The effect of the current increases is most noticeable in urban and industrial areas, where school facilities are decidedly inadequate. At least 50,000 children are in half-day sessions during 1954-55, with triple shifts being considered in some communities. There are over 1,600 classrooms under construction for elementary school use, but at least 1,000 more are desperately needed, not to mention the pressure exerted on secondary and college-level facilities.

From 1949 to 1953 inclusive, capital outlay for school buildings amounted to more than \$334 million, but present building needs are estimated at \$1 billion. Approximately 75 districts needing new buildings have exhausted their present spending power, which is restricted to bond issues not exceeding 5 percent of assessed valuation. It has been advocated that this pressure be eased somewhat by extending the 5-percent limit.

The severe shortage of qualified teachers is no secret, and present conditions indicate that the situation will continue for some time. In 1954 there were 85,700 college graduates prepared to teach in the United States as against 115,500 in 1950, a decline of 25.8 percent. This is especially serious in view of the fact that student enrollment jumped from 25 million to 30 million over the same period, and is estimated at 35 million by 1960.

The shortage of teachers at the present time numbers almost 125,000. Yet over 75,000 teachers quit their jobs last year, mainly because of insufficient pay. The average calendar-year salary for teachers in 1954 was \$3,805, which is below the \$4,550 average pay of semiskilled workers, and far below the professional and semiprofessional worker's average salary of \$6,790.

Although Illinois is one of the wealthiest states in the nation, it has lagged behind other states in its support of public education. While the average state spent 2.27 percent of its annual income on public schools during 1953-54, Illinois spent but 1.92 percent. In the same period, Illinois ranked forty-sixth in the percentage of its income used in support of public education, contributing only 20 percent of all such costs as compared with a national average of 38 percent.

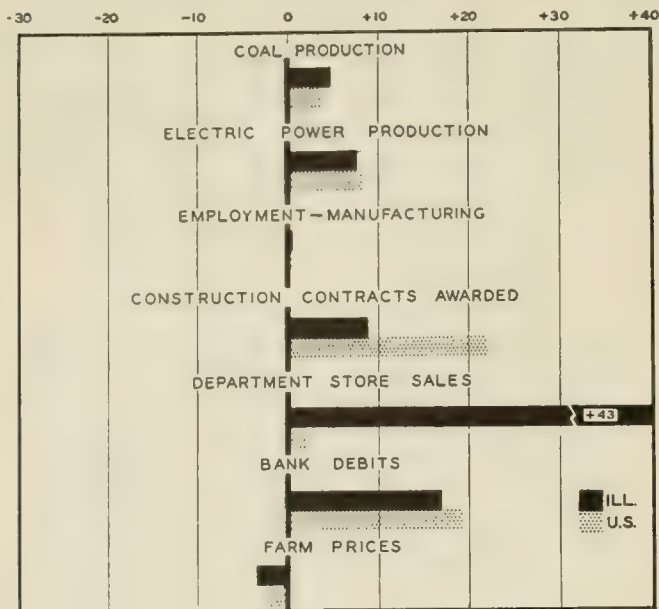
It is clear that if Illinois is to give its children a first-rate education, much additional support will be needed not only to individual districts but to the over-all program of public education.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes November, 1954, to December, 1954



## ILLINOIS BUSINESS INDEXES

Item	December 1954 (1947-49 = 100)	Percentage Change from	
		Nov. 1954	Dec. 1953
Coal production <sup>2</sup>	94.2	+ 4.6	- 7.8
Electric power <sup>1</sup>	204.1	+ 7.5	+10.7
Employment—manufacturing <sup>3</sup>	102.1	+ 0.4	- 4.3
Weekly earnings—manufacturing <sup>4</sup>	136.3 <sup>a</sup>	+ 1.7	+ 1.9
Dept. store sales in Chicago <sup>5</sup>	110.0 <sup>b</sup>	+ 1.9	+ 1.9
Consumer prices in Chicago <sup>6</sup>	117.0	- 0.5	+ 0.5
Construction contracts awarded <sup>7</sup>	192.6	+ 8.9	+25.1
Bank debits <sup>8</sup>	170.3	+16.7	+ 7.9
Farm prices <sup>9</sup>	83.0	- 3.5	-10.8
Life insurance sales (ordinary) <sup>10</sup>	194.1	+ 9.1	+13.0
Petroleum production <sup>10</sup>	111.0	+ 7.3	+13.8

<sup>1</sup> Federal Power Commission; <sup>2</sup> Illinois Department of Mines; <sup>3</sup> Illinois Department of Labor; <sup>4</sup> Federal Reserve Bank, 7th District; <sup>5</sup> U. S. Bureau of Labor Statistics; <sup>6</sup> F. W. Dodge Corporation; <sup>7</sup> Federal Reserve Board; <sup>8</sup> Illinois Crop Reports; <sup>9</sup> Life Insurance Agency Management Association; <sup>10</sup> Illinois Geological Survey.

<sup>a</sup> November data; comparisons relate to October, 1954, and November, 1953. <sup>b</sup> Seasonally adjusted. <sup>c</sup> Revised series.

## UNITED STATES MONTHLY INDEXES

Item	December 1954	Percentage Change from	
		Nov. 1954	Dec. 1953
Personal income <sup>1</sup>	291.1 <sup>a</sup>	+ 0.6	+ 1.4
Manufacturing <sup>1</sup>			
Sales	298.8 <sup>a</sup>	+ 2.0	+ 3.3
Inventories	43.8 <sup>a, b</sup>	0.0	- 6.2
New construction activity <sup>1</sup>			
Private residential	14.6	- 6.0	+27.7
Private nonresidential	11.9	- 6.4	+ 2.3
Total public	9.4	-16.5	- 1.5
Foreign trade <sup>1</sup>			
Merchandise exports	14.9 <sup>c</sup>	+ 0.4	- 0.4
Merchandise imports	10.1 <sup>c</sup>	+ 9.9	- 1.2
Excess of exports	4.8 <sup>c</sup>	-14.9	+ 1.3
Consumer credit outstanding <sup>2</sup>			
Total credit	30.1 <sup>b</sup>	+ 3.1	+ 2.0
Installment credit	22.5 <sup>b</sup>	+ 2.1	+ 1.3
Business loans <sup>2</sup>	22.5 <sup>b</sup>	+ 1.5	- 3.8
Cash farm income <sup>3</sup>	32.4	-17.2	- 7.8
Indexes (1947-49 = 100)			
Industrial production <sup>2</sup>			
Combined index	130 <sup>a</sup>	+ 0.8	+ 3.2
Durable manufactures	145 <sup>a</sup>	+ 1.4	+ 2.1
Nondurable manufactures	119 <sup>a</sup>	+ 0.8	+ 6.3
Minerals	116 <sup>a</sup>	+ 3.6	+ 2.7
Manufacturing employment <sup>4</sup>			
Production workers	102 <sup>a</sup>	+ 0.1	- 4.6
Factory worker earnings <sup>1</sup>			
Average hours worked	102	+ 0.7	+ 0.7
Average hourly earnings	138	0.0	+ 1.7
Average weekly earnings	140	+ 0.7	+ 2.4
Construction contracts awarded <sup>5</sup>	239	+22.0	+40.7
Department store sales <sup>2</sup>	116 <sup>a</sup>	+ 1.8	+ 2.7
Consumers' price index <sup>4</sup>	114	- 0.3	- 0.5
Wholesale prices <sup>4</sup>			
All commodities	110	- 0.5	- 0.5
Farm products	90	- 3.4	- 4.7
Foods	103	- 0.4	- 0.9
Other	115	+ 0.1	+ 0.3
Farm prices <sup>3</sup>			
Received by farmers	88	- 2.2	- 6.4
Paid by farmers	112	0.0	+ 0.9
Parity ratio	86 <sup>d</sup>	- 1.1	- 5.5

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp. <sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for November, 1954; comparisons relate to October, 1954, and November, 1953. <sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1955				1954	
	Jan. 22	Jan. 15	Jan. 8	Jan. 1	Dec. 25	Jan. 23
Production:						
Bituminous coal (daily avg.)	1,423	1,447	1,418	1,486	1,699	1,402
Electric power by utilities	9,981	9,928	9,833	9,425	9,431	8,976
Motor vehicles (Wards)	184	177	171	142	144	138
Petroleum (daily avg.)	6,695	6,689	6,574	6,343	6,401	6,292
Steel	117	116	114	107	107	102
Freight carloadings	636	645	602	529	561	617
Department store sales	95	99	106	80	190	86
Commodity prices, wholesale:						
All commodities	110.1	110.1	109.8	109.6	109.4	110.9 <sup>a</sup>
Other than farm products and foods	115.1	115.1	115.1	114.8	114.7	114.6 <sup>a</sup>
22 commodities	91.0	90.8	90.8	90.2	89.9	87.7
Finance:						
Business loans	22,163	22,237	22,334	22,486	22,423	22,686
Failures, industrial and commercial	265	200	198	152	213	208

Source: Survey of Current Business, Weekly Supplements.

<sup>a</sup> Monthly index for January, 1954.



# RECENT ECONOMIC CHANGES

## Consumer Credit at High

The value of consumer credit outstanding reached its seasonal high in December, advancing to a record \$30.1 billion. December was the first month in 1954 that credit surpassed its level for the same month a year earlier. Except for automobile loans all forms of debt rose less this December than a year ago. Installment credit extended for car purchases increased by \$100 million in December, 1954, compared with a decline of \$60 million last year. The inverse movement is attributed to the earlier introduction of new model autos in 1954.

Despite the high attained in December, growth in consumer indebtedness slowed substantially in 1954. In the opening months of the year consumers liquidated considerably more debt than in the early months of other recent years. After March, debt increased but the advance was only moderate. As a result, the \$30.1-billion total of outstanding debt attained at year-end was up somewhat less than \$600 million from the end of 1953. In 1953 consumer credit had advanced by \$3.7 billion and in 1952 by \$4.6 billion.

## Copper Supplies Short

Production and stocks of refined copper increased in November and December, 1954, but supplies continued short. The shortages reflected the aftermath of strikes last fall. As shown by the accompanying chart, stocks of refined copper reached a peak of 125,000 tons early in 1954, as production exceeded deliveries during most of 1953. This situation was reversed in later months with the result that stocks dropped by more than 90,000 tons, or almost 70 percent, within seven months. The sharp cut-back in inventories was caused in part by reduced production and in part reflected accelerated consumer buying for their inventories in anticipation of a price advance.

COPPER PRICES AND PRODUCTION



Source: Copper Institute.

Despite the critical supply situation, prices were maintained at less than thirty cents a pound during 1954. However, with copper selling at 38 cents a pound in London and indications from Chile that more crude copper would be diverted to Europe if the United States price was not increased, the industry advanced the price to 33 cents late in January.

The supply situation may become worse rather than better in the near future. A strike in Rhodesia during January is expected to affect supplies of finished goods in Great Britain and Europe in the next few months. To prevent foreign consumers from bidding United States copper away from use in this country, the Department of Commerce temporarily suspended licenses on exports of refined and scrap copper early in February.

## Consumer Goods Market

Consumer expenditures, along with the housing boom, were the mainstay of the economy last year. Though employment was down, disposable income increased, largely because of lower taxes. Consumer outlays kept pace with the rise in income, as expenditures amounted to about 92 percent of income last year, the same as in 1953.

All major categories of consumer expenditures were higher in 1954. Expenditures for services were up the most, amounting to 36 percent of total consumer outlays compared with 35 percent in 1954. This marked a continuation of a trend evident during most of the postwar period. In 1948 services accounted for only 32 percent of total expenditures. A slightly smaller share of total expenditures was allotted to nondurables last year than the year before, whereas the share expended for durables dropped from about 13 percent to 12 percent of total consumption expenditures.

As with industrial production, inventory liquidation characterized the supply side of consumer durables last year. Although a moderate increase occurred in purchases, production of consumer durable goods dropped 8 percent from 1953. The decline reflected a cutback of about 10 percent in automobile output, 8 percent in production of major durable goods such as furniture, appliances, and television sets, and 6 percent in other durables. By the final quarter of 1954, however, most important lines of output had increased and were substantially above year-end 1953 levels.

## Unemployment Up Seasonally

Unemployment rose seasonally in January by half a million workers to 3.3 million, as workers temporarily employed by retail stores for the holiday season were laid off and activity in construction and other industries slackened. The labor force early this year was somewhat larger than a year ago, but unemployment amounted to 5.2 percent of the labor force compared with 4.9 percent last January.

Employment in January was down by 450,000 to 60.2 million, about the same as in early 1954. All of the decline was centered in nonfarm employment. Census data in thousands of workers are as follows:

	January 1955	December 1954	January 1954
Civilian labor force	63,497	63,526	62,840
Employment	60,150	60,688	59,753
Agricultural	5,297	5,325	5,284
Nonagricultural	54,853	55,363	54,469
Unemployment	3,347	2,838	3,087

## Manufacturers' Sales Up

Manufacturers' sales increased in December for the third successive month, amounting to \$24.9 billion after seasonal adjustment. The advance, which was confined to durable goods industries, amounted to slightly less than 2 percent and was a half billion dollars higher than in December of last year. New orders increased by almost \$1 billion to \$25.3 billion, and were 2 percent higher than in the previous December.

For the year as a whole sales were about 5 percent below 1953's record. As shown by the accompanying chart, most of the decline from 1953 occurred in the first half of the year. Sales in the fourth quarter of 1954 averaged about the same as in the last three months of 1953. Manufacturers' new orders in 1954 were down 3 percent, as the first half drop was considerably greater than the recovery that took place later in the year.

The chart also illustrates the slowness with which the inventory adjustment occurred. Production was curtailed sharply late in 1953 but because of the accompanying decline in sales, inventory liquidation in the first half of 1954 was only moderate, and book values remained above the first half of 1953. By the second half, however, liquidation was well underway and book values were down somewhat more than 6 percent from their peak in the last half of 1953. For the year as a whole the decline in inventory book values amounted to about 3 percent.

## Consumer Prices Unchanged

Consumer prices last year showed little change from either of the two previous years. At an average 114.8 percent of the 1947-49 base, the over-all index was practically unchanged from 1953 and only 1 percent higher than in 1952.

Rents continued upward, rising 3.5 percent during the year, and costs of medical care rose 3 percent. Apparel and personal care were also slightly higher than in 1953. Price declines occurred in transportation and reading and

recreation. The monthly average of food prices was unchanged from 1953, as rising prices in the first half of the year were offset by declines in the second half. By December food prices had fallen 3.7 percent from the year's peak reached in July and were lower than any month since early 1951.

## Investing in the Stock Market

(Continued from page 2)

industry. They are usually the biggest ones in their industries, such old, established companies as DuPont, General Electric, International Harvester, General Motors, General Foods, and RCA.) This statement may be true in an average sense but it is not a good rule to follow in an individual case. From the point of view of stability of earnings and safety of investment—which is presumably what is meant by "sound"—considerations of the industry's stability and of the company's potential are far more important than the size of the company or its antiquity. A small, well-entrenched producer of baby foods or of electronic mechanisms may be a far safer hedge against recession losses, and possess more potential for the future as well, than the largest producer of farm equipment or of television sets.

Stocks in smaller companies are often priced much more reasonably simply because so much more interest is placed in the "blue chips." It is worth noting also that the smaller companies in an industry generally register larger percentage gains during periods of expansion and over the long run than do the largest companies (though, on the other hand, setbacks in recessions are also likely to be greater).

*Hold on to a stock which you think ought to be sold because you hate to stop receiving the (nominal) dividend checks and you hope that it might possibly rise later on anyway.* Every once in a while one finds that events do not appear to justify retention of a particular stock and the outlook for that company turns out to be not so favorable after all. If the stock has been held for some time, one may hesitate to sell it simply because of this fact and may rationalize his decision by figuring that the picture might possibly change anyway.

Maybe it will, and maybe the Baltimore Orioles will win the World Series this year. If you have a few thousand to gamble, such things may be worth betting on, but this is not for the average investor. Such a stock, like a girl friend who has turned sour, is best disposed of quickly, even if at a loss. Sentiment has no place in stock market investment.

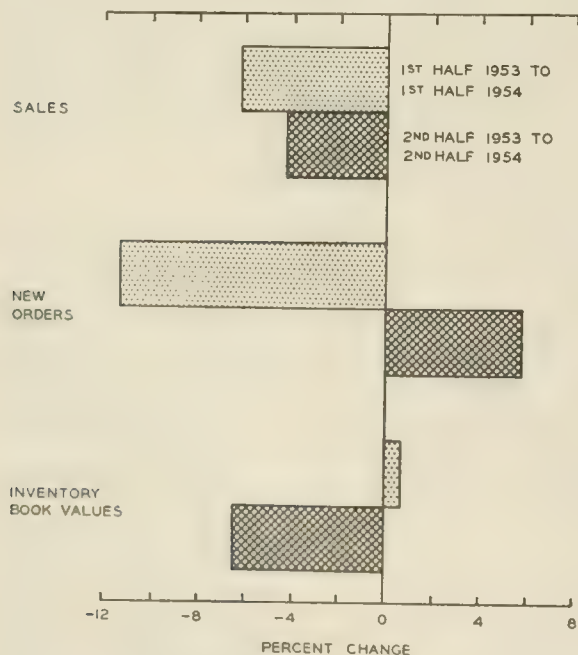
## An Over-all View

The foregoing is by no means a comprehensive list of the misconceptions that exist concerning investment on the stock market. It does, however, contain some of the principal misconceptions and, it is hoped, provides the basis for a constructive approach toward stock market investment.

The stock market has a real place in our economy, not only as a means of enabling firms to raise needed funds but also as an outlet for individual investment. In the latter respect, however, the stock market must be used in conjunction with other sources of investment—banks, savings and loan associations, insurance, and so on. It is not without risk, but given the exercise of good judgment the potential advantages to be obtained from it are considerable.

RF

INDICATORS OF MANUFACTURING ACTIVITY  
Percent change, 1953 to 1954



Source: Department of Commerce.



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Sales Forecasting Study

Recently published by the University of Illinois is a report on the how's and why's of sales forecasting. The central purpose of the study is to highlight significant changes in ideas and methods of sales forecasting during the past few decades. It is of particular importance in its combination of the problems of the individual firm with the background economic situation. The study is largely concerned with the influence of these factors on sales forecasting uses and techniques, as ascertained from a study of twenty selected firms. Through extensive interviews with executives in these companies, the author was able to determine present practices and the desirability of various techniques of sales forecasting in different situations.

The study was prepared by C. M. Crawford, Project Director of the Market Research Department, Mead Johnson and Company, Evansville, Indiana. It is available from 205 David Kinley Hall, Urbana, Illinois, at a charge of \$1.00 per copy.

### Life Insurance Benefit Payments

Payments by life insurance companies to families in the United States are fast approaching the \$5-billion mark. During the past year, payments have risen almost 9 percent. The greater portion of payments continues to go to living policyholders, with just under 60 percent of all payments being made to them. Included are policy dividends and surrender values of discontinued policies as

well as the contractual benefits of annuities, disability payments, and matured endowments.

As shown by the accompanying chart, the money paid out by life insurance companies has almost doubled since 1940. This has largely been the result of the continuous rise in death benefits throughout the period; these have increased by 106.5 percent. Other payments have expanded somewhat less, 72.5 percent. The main causes of the lag in benefits to living policyholders are the dip in policy surrenders during the war years and their failure to return to levels much higher than that of 1945. Policy dividends and payments from matured endowments have both doubled in the past fifteen years, so that they now make up about 52 percent of the payments to living policyholders as compared with 44 percent in 1940.

### Metal Losing to Plastic

A new material by Minnesota Mining and Manufacturing Company, St. Paul, is being marketed with an eye to stealing a substantial portion of the uses of sheet metal. Made of unhardened sheets of laminated plastic reinforced with glass filaments, it is called "Scotchply." The sheets are completely moldable, but may be hardened after molding with only the application of heat and low pressure, rather than any further chemical process.

The maker asserts that this material possesses the strength of steel at one-fourth the weight, is shatterproof, and is rotproof. The material can be cut, sawed, drilled, polished, or painted. It can be manufactured by mass production methods, meaning lower costs.

Among the expected uses are storage tanks, shipping containers, automotive parts, and printed electrical circuits. The price is currently about \$2 a pound.

### Wandering Wherever

More and more Americans can be found wandering to all parts of the world. The where's and why's of their travels can now be ascertained from data of the Passport Division of the United States Department of State.

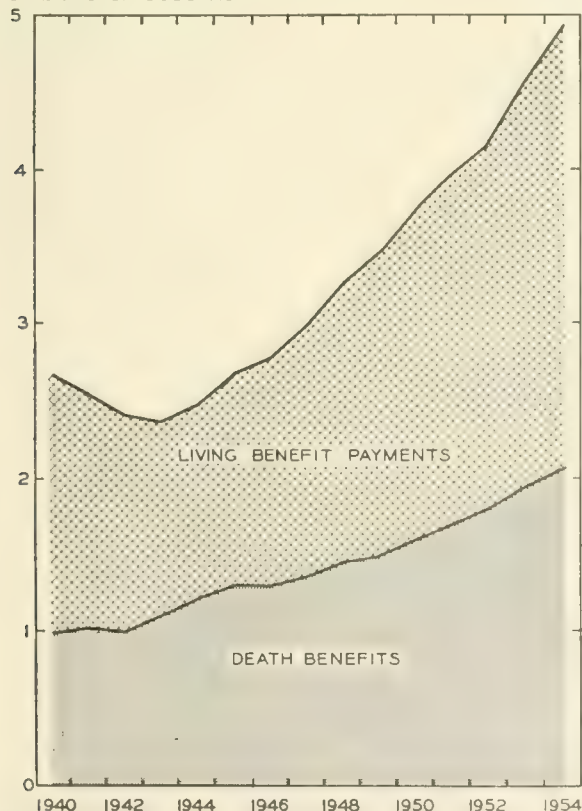
Where did they come from and where did they go? About one-fourth of those persons obtaining passports during 1953 and 1954 were from one state, New York, presumably because of its dominance in United States foreign trade and because of its proximity to the European continent. Other states ranking high in travel were California, Pennsylvania, New Jersey, and Illinois, usually in about that order but with the last three very close to one another. These five accounted for over half the persons traveling abroad.

The majority of American travelers, more than 77 percent in the past two years, traveled to Western Europe, in part because of the facilities available and because of the large cultural heritage that Americans have from that continent. About 10 percent obtained passports to go to Latin America. Eastern Europe, the Near East, and Africa together accounted for another 10 percent, with Australia and the Far East making up the remainder.

Personal business was the reason for most of the trips abroad, but pleasure travel ran a close second. Together these accounted for over three-fourths of the trips in recent years. Commercial business, though third, was far behind with less than 10 percent. Almost 5 percent of the passports issued in the past two years were obtained in order to accept employment abroad.

### LIFE INSURANCE BENEFIT PAYMENTS

BILLIONS OF DOLLARS



Source: Institute of Life Insurance.

# THE FEDERAL BUDGET FOR FISCAL 1956

CHARLES E. MEYERDING, Instructor in Economics, University of Minnesota

In the first month of each new year the President of the United States submits to Congress his recommended budget for the Federal government for the following fiscal year, in this case the year beginning July 1, 1955. The Budget Message submitted by the President last month indicates a still unbalanced budget for fiscal year 1956, although the Eisenhower administration has repeatedly made reference to a balanced budget as a primary objective. However, the desirability of tax reduction as an expansionary device seems to have won out temporarily. (Keep in mind that the balanced budget referred to here is the conventional budget and not the cash budget, which is based on cash receipts and cash outlays.)

The conventional budget deficit for fiscal year 1956 is estimated at \$2.4 billion. This compares with an estimated deficit for the current fiscal year of \$4.5 billion.

## Revenues

Receipts are expected to increase by \$1 billion between 1955 and 1956 as is indicated by Table 1. Under existing legislation, the corporation income tax rate will fall from 52 percent to 47 percent and excise tax rates (on liquor, tobacco, gasoline, and automobiles) will be reduced. These decreases in rates, scheduled for April 1, 1955, would cost the government \$3 billion in revenue, but the President has asked Congress to extend the corporate and excise tax rates for another year.

**Table 1. Federal Receipts and Expenditures**  
(Fiscal years, billions of dollars)

Receipts or Expenditures	1950	1951	1952	1953	1954	1955 (estimated)	1956 (estimated)
Conventional budget							
Receipts	36.5	47.6	61.4	64.8	64.7	59.0	60.0
Expenditures	39.6	44.1	65.4	74.3	67.8	63.5	62.4
Surplus (+) or deficit (-)	-3.1	+3.5	-4.0	-9.4	-3.1	-4.5	-2.4
Consolidated cash statement							
Receipts	40.9	53.4	68.0	71.5	71.6	66.6	68.8
Expenditures	43.2	45.8	68.0	76.8	71.9	69.0	68.2
Surplus (+) or deficit (-)	-2.2	+7.6	(*)	-5.3	-0.2	-2.4	+0.6

\* Cash surplus of \$54 million.

Note: Detail will not necessarily add to totals because of rounding.

Sources: Treasury Department and Bureau of the Budget.

The Mills Plan, which places corporation tax payments more closely on a pay-as-you-earn basis, will result in a \$2-billion loss of revenue to the government in fiscal 1956 compared with 1955. This loss is due to the fact that the transition to the Mills Plan has been completed (or will be by June 15, 1955) and the speed-up in corporation tax payment will be ended. Prior to 1951, corporations were required to file their tax returns in the third month following the close of their taxable year. Corporations could take a full year to pay their taxes on the previous year's income. The Mills Plan was responsible for a transition period in which corporations paid their taxes increasingly closer to the year in which the tax liability was incurred. As is shown by Table 2, the percentage of the tax liability paid in relevant quarters during the transition period has been moved forward gradually. By June 30 of this year, the full adjustment will have been completed and \$2 billion less money will be taken in during fiscal 1956 as a result.

An increase in the tax base due to economic growth is expected to yield more than enough tax revenue to offset this \$2-billion loss. On these assumptions, then, revenue is expected to increase by \$1 billion.

## Expenditures

The proposed budget indicates a decline in government expenditures of \$1.1 billion between 1955 and 1956, as is shown in Table 1. Major national security expenditures are expected to decline \$186 million, and the number of military personnel is scheduled to be reduced to 2.8 million by June 30, 1956. Air Force activities will be somewhat increased with small reductions taking place in the expenditures for the Army and the Navy. Secretary of Defense Wilson has promised a 5-percent reduction in defense spending and the entry "unallocated reduction in estimates" (\$1.75 billion) actually appears in the budget.

A classification of Federal expenditures by function is presented in Table 3. Current expenses for civil operations include the traditional expenditures for the legislative branch, the judiciary, the President's office, various regulatory activities of the government, and many departments and agencies. Interest charges will be \$175 million lower in 1956 than they were in 1955. This decrease reflects lower rates of interest and an unusual concentration of interest payments in 1955 associated with debt refunding activities. The interest payments on the Federal debt are expected to amount to 10 percent of Federal expenditures and about 2.1 percent of national income.

Civil benefit outlays are made for aids and special services such as veterans' benefits and for Federal non-military programs such as public works and agricultural commodities. With regard to agricultural price supports and purchase programs (Commodity Credit Corporation), estimated net expenditures in 1956 (\$968 million) are about a billion dollars less than in 1955 (\$1,934 million). This decline can be traced to continuation of acreage restrictions and to lower price-support levels. Increased marketing efforts also are expected to increase the demand for farm products. An offsetting factor to reduced CCC expenditures lies in additional CCC outlays to retire certificates of interest sold in earlier years to private banks and lenders. The reduction in net expenditures for all agricultural programs is expected to be \$871 million.

Protection expenditures include national security spending (\$40.5 billion) and economic and technical assistance under the mutual security program (\$1 billion). Taken together, the total of such expenditures in 1956 is estimated at \$1.1 billion less than in 1955.

**Table 2. Tax Payments of Calendar-Year Corporations Under Provisions of the Mills Plan**

Quarters	Percentage payable by quarters					
	1950	1951	1952	1953	1954	1955
March 15	25	30	35	40	45	50
June 15	25	30	35	40	45	50
September 15	25	20	15	10	5	..
December 15	25	20	15	10	5	..

Source: *Business Review*, Federal Reserve Bank of Philadelphia, January, 1955, p. 12.



## An Impact Budget?

The conventional budget deficit is estimated at \$2.4 billion in fiscal year 1956. The cash budget, on the other hand, is expected to yield a \$558-million surplus. The difference is largely explained by the inclusion of trust fund receipts and expenditures in the cash budget and not in the conventional budget, and the exclusion of intragovernmental transactions from the cash budget but not from the conventional budget. Which budget gives the better measure of the economic impact of government activities? Or: How satisfactory is either of these budgets as a measure of economic impact? There are two aspects of this problem which will be mentioned here.

First, in measuring the economic impact of government activities, it is usually assumed that each dollar of tax should be given the same impact value (weight) as any other dollar of tax. The effective use of taxation as a policy variable in the maintenance of stability and economic growth presupposes an understanding of the effects of tax level changes and of tax structure changes.

For example, for 1956, excise tax receipts are estimated at \$9.4 billion and estate and gift taxes are expected to yield \$970 million. Will the excise taxes reduce spending in the private sector of the economy ten times as much as will the estate and gift taxes? Or is an excise tax dollar more "potent" than an estate tax dollar?

To assume that an excise tax dollar has the same economic impact on the total spending stream as an estate

The effect of these policies is to remove from tax-financed Federal budget expenditures the outlays on these assets. Future budget expenditures will be larger only by the amount necessary to pay the interest and amortization charges on these loan-financed assets. With such operations outside the scope of the budget reports, do the \$62.4 billion (conventional budget) expenditures or the \$68.2 billion (consolidated cash budget) expenditures reveal the real impact of government expenditures? If a capital budget is to be adopted in effect, it would be well to recognize it explicitly as such. If the capital budget approach is not to be used, some clarification of current practices would be welcome.

## Output and the Budget

From the second quarter of 1953 to the third quarter of 1954, the gross national product (at annual rates) fell from \$369.9 billion to \$355.5 billion, a decrease of approximately 4 percent. The economic contraction which occurred in 1953-54 was closely associated with decreased spending on national security and a related decrease in business inventory spending. Tax cuts were made but their full effects have not yet been felt. When these tax cuts are fully effective, will total spending be sufficient to call forth "maximum employment, production, and purchasing power"?

If the rate of increase in productivity during the next two years follows the historical pattern, our potential national output in 1956 might be in the neighborhood of \$395 billion. It is feared in some quarters that under the current budgetary outlook for 1956, the realized level of national output will be less than the potential output (at current prices). In order to increase expenditures, further tax reduction has been suggested, particularly to increase personal exemptions from \$600 to \$700 in the individual income tax. Much of this increase in disposable personal income, it is argued, would be spent and respent, and a fuller utilization of our resources could then be achieved. However, the Administration rejects tax cuts at this time on the grounds that the resulting deficit would be inflationary, but holds out the promise of tax cuts next year.

The President's estimate of the near future is clearly one of great confidence and optimism. The degree of confidence which the Administration was able to instill into the business community is given much of the credit for the recent business upturn. Thus in his Economic Report, President Eisenhower stated: "Instead of expanding Federal enterprises or initiating new spending programs, the basic policy of the Government in dealing with the contraction was to take actions that created confidence in the future and stimulated business firms, consumers, and States and localities to increase their expenditures." The exact role that confidence-building plays as a recovery measure is difficult to define and measure. The fact that monetary policy did contribute to increased spending gives an indication that businessmen do have confidence in the long-term performance of the American economy. That the Administration also has confidence in this factor is clear from the fact that an implicit assumption in the present budget appears to be that a growth in income will produce high government reserves in this next and future fiscal years.

The stability and growth of the American economy are important to every member of our society. Wisely balanced public policies can contribute to these objectives. The President's Budget Message provides the American people with clear insight into future government policies.

**Table 3. Classification of Federal Expenditures by Function**  
(Fiscal years, billions of dollars)

Item	1951	1952	1953	1954	1955 (estimated)	1956 (estimated)	
						Amount	Percent
Current expenses for civil operations and administration	1.9	2.2	2.3	1.9	1.9	2.3	4
Interest	5.7	5.9	6.6	6.5	6.6	6.4	10
Civil benefits	11.5	12.2	13.4	11.6	13.3	12.0	19
Protection	25.6	46.0	52.0	47.9	41.7	41.5	67
Undistributed (reserves and adjustments)	-.7	-.9			.1	.3	
Total	44.1	65.4	74.3	67.8	63.5	62.4	100

Note: Detail will not necessarily add to totals because of rounding.  
Source: *The Budget*, 1956.

tax dollar or a capital gains tax dollar may be necessary, given the current state of knowledge, but this assumption should make the users of either of these two budgets especially cautious in policy recommendations. This is not a call to the Bureau of the Budget to scrap these necessary documents, but rather it is an attempt to question the idea that either of these two budgets is an "impact" budget. An analysis of the effects of individual tax and expenditure items is needed.

Second, that new activities can be stimulated by government loans and guarantees has long been realized. In the last two years, increased use has been made of this technique. Several cases will be briefly noted. The Commodity Credit Corporation has sold certificates of interest to the private banking system. The Federal National Mortgage Association has sold housing mortgages which it had formerly purchased. The lease-purchase plan, which permits the government to lease-amortize buildings for a period of time and then take title to them, has been enacted by Congress. The proposed National System of Interstate Highways Program would, it appears, be financed by obligations issued by an independent authority.

# LOCAL ILLINOIS DEVELOPMENTS

A sharply higher level of activity characterized Illinois business in December; much of the increase was due to seasonal influences. Department store sales and bank debits, spurred by the biggest Christmas ever, surged up 43 percent and 17 percent respectively. Though somewhat overshadowed by these changes, electric power output, petroleum production, life insurance sales, and construction contracts awarded were all up by more than 5 percent. The December increases were enough to put five of the indicator's substantially above December, 1953; advances ranged from 8 percent for bank debits to 25 percent for construction contracts.

## Property Tax Rates in Illinois Cities

After five years of decline, property tax rates throughout the nation rose during 1954. In Illinois 22 of the 23 largest cities shared in this increase with gains ranging from 0.5 percent in Chicago to 21.5 percent in East St. Louis. In the latter city the tax paid per \$1,000 assessed value was more than \$6 higher than in 1953.

The larger increases in tax rates occurred in the southern areas. The jump in East St. Louis resulted largely from an additional \$1.50 levied for the sanitary district and \$1.90 for schools. This rise was closely followed by a gain of 21.4 percent in Alton, most of which was for the school districts. The 14.4-percent increase in the Belleville levies, third in the growth list, also resulted primarily from increases in funds allocated to schools.

The shifting pattern of property tax rates changed the ranking by size of rate of most Illinois cities. Chicago's rank was reduced from first to third, and Evans-

ton became the city with the highest property tax rate in the State (of those compared). East St. Louis moved from sixth to second place and Alton from twenty-third to eighteenth in the list of cities.

The average rate for those cities shown in the accompanying chart was \$27.95 per \$1,000 of assessed valuation, a good deal less than the \$50.93 national average. When the rate is adjusted for current market value as opposed to assessed value, however, the average rate for Illinois, \$22.96, is somewhat higher than the adjusted national rate of \$20.88.

## Bank Debits Rise

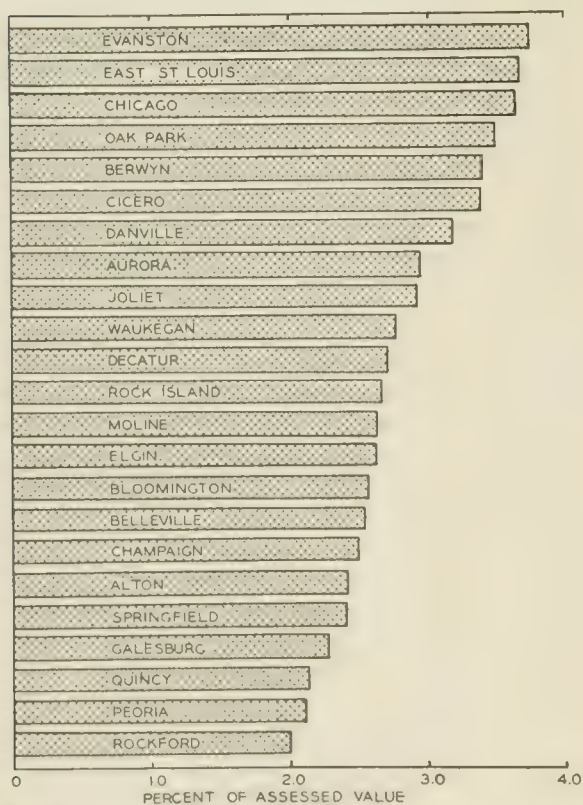
Despite talk of recessions, depressions, and rolling readjustments throughout the past year, bank debits to private demand deposits in most Illinois cities rose to new heights in 1954. For the fifteen cities listed on the facing page, the annual total increased 1.2 percent over 1953 to almost \$154 billion.

Two-thirds of the reporting cities shared in the 1954 rise. These ranged from 0.1 percent in Joliet to 7.7 percent in Danville. Chicago, which dominates the scene, reported an increase in bank debits of 1.3 percent, a little more than the State total. Only four cities showed declines for the year, Bloomington, Peoria, Rockford, and Rock Island-Moline. Bloomington dropped only 0.9 percent, whereas in Peoria the loss from 1953 was 5.6 percent.

December capped the 1954 debit totals. Although not the highest month in absolute value (it was topped by the seasonally high March figure), bank debits in December recorded the greatest gain, almost 8 percent, over their 1953 counterpart.

In spite of the seasonal drop from the December figure, January debit totals for Illinois cities were 7 percent greater than those of January, 1954, a far cry from the 3-percent annual decline registered a year ago. Fourteen of the fifteen reporting cities shared in the rise, with only Alton below its level of January, 1954. Some measure of this gain is a result of the low figure of the earlier year, but much of it can be attributed to rising business activity.

LOCAL TAX RATES, 1954



Source: National Municipal League.

## Million-Dollar Revenue Loss

An announcement from the State Revenue Department indicates that 1954 collections of the six major taxes in Illinois fell almost a million dollars below those of 1953. These six taxes still produced a total of \$422 million during the past year, however.

The bulk of the revenue comes from the sales tax, or the retailers' occupation tax as it is officially known. Although totaling \$201 million for the year, this represents a decline of \$9 million, the major cause of the over-all drop. December was the only month of the year when collections for 1954 exceeded those of 1953. Excise tax collections on cigarettes and liquor also registered substantial declines for the year, about \$1 million each.

The major offset to these losses was a \$7-million gain in revenue from the motor fuel tax, which rose to \$137 million. This money, however, is earmarked for use in building and repairing highway facilities, and is not substitutable for general funds except so far as road-building is financed from this source. The public utility taxes and the petroleum inspection fees, which are not earmarked for any special purpose, also rose, adding almost \$3 million more to the general fund in 1954 than in 1953.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

December, 1954

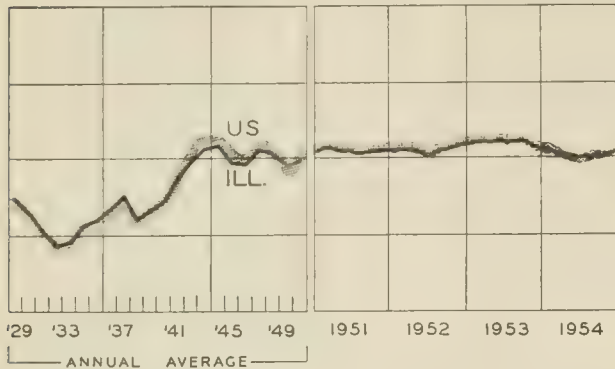
		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>5</sup> (000,000)	Postal Receipts <sup>6</sup> (000)
<b>ILLINOIS</b>		\$27,126 <sup>a</sup>	992,482 <sup>a</sup>	\$563,154 <sup>a</sup>		\$14,886 <sup>a</sup>	\$19,308 <sup>a</sup>
Percentage Change from	{ Nov., 1954 Dec., 1953	+5.7 +1.2	+5.5 +4.2	+7.5 +3.4	+43 +1	+16.7 +7.9	+17.8 -4.2
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b>		\$19,655	761,088	\$406,030		\$13,655	\$16,496
Percentage Change from	{ Nov., 1954 Dec., 1953	+17.0 -13.5	+5.7 +3.2	+7.2 +1.1	+43 +2	+17.6 +8.0	+13.1 -4.9
<b>Aurora</b>		\$ 65	n.a.	\$ 7,681		\$ 55	\$ 161
Percentage Change from	{ Nov., 1954 Dec., 1953	-70.7 +170.8		+5.1 +3.7	+43 -1	+16.2 +13.9	+49.2 +3.2
<b>Elgin</b>		\$ 197	n.a.	\$ 6,234		\$ 37	\$ 136
Percentage Change from	{ Nov., 1954 Dec., 1953	-45.9 -28.4		+14.4 -0.8	+30 +8	+11.0 +15.4	+10.9 -6.4
<b>Joliet</b>		\$ 632	n.a.	\$11,064		\$ 72	\$ 170
Percentage Change from	{ Nov., 1954 Dec., 1953	-71.1 +108.6		+1.2 -14.5	+51 +3	+14.3 +9.3	+49.5 -0.9
<b>Kankakee</b>		\$ 198	n.a.	\$ 5,519		n.a.	\$ 71
Percentage Change from	{ Nov., 1954 Dec., 1953	+26.9 +4.8		+0.7 +5.1	n.a.		+68.7 +12.8
<b>Rock Island-Moline</b>		\$1,299	21,595	\$ 9,664		\$ 89 <sup>b</sup>	\$ 262
Percentage Change from	{ Nov., 1954 Dec., 1953	+38.8 +107.8	+6.9 +7.7	+0.0 +3.4	n.a.	+7.3 +10.2	+52.2 +1.4
<b>Rockford</b>		\$1,268	34,590	\$17,206		\$ 157	\$ 324
Percentage Change from	{ Nov., 1954 Dec., 1953	+5.8 +138.8	+11.1 +8.0	+5.9 +1.9	+56 <sup>c</sup> -2 <sup>c</sup>	+18.2 +6.9	+66.2 -4.1
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b>		n.a.	7,261	\$ 5,443		\$ 59	\$ 114
Percentage Change from	{ Nov., 1954 Dec., 1953		+2.9 +4.2	-1.1 +4.3	n.a.	+10.1 -6.5	+49.2 -4.6
<b>Champaign-Urbana</b>		\$ 153	9,632	\$ 7,343		\$ 59	\$ 162
Percentage Change from	{ Nov., 1954 Dec., 1953	-53.6 +7.0	+2.3 +5.2	-1.3 +0.7	n.a.	+8.9 +5.3	+62.3 +6.0
<b>Danville</b>		\$ 168	9,714	\$ 6,261		\$ 50	\$ 101
Percentage Change from	{ Nov., 1954 Dec., 1953	+6.3 -30.3	-0.3 +7.4	+2.8 +2.3	+38 -11	+12.1 +19.6	+72.1 +2.0
<b>Decatur</b>		\$ 591	26,207	\$10,889		\$ 114	\$ 177
Percentage Change from	{ Nov., 1954 Dec., 1953	-27.4 +162.7	-2.9 +16.3	-2.8 +6.0	+48 <sup>c</sup> -4 <sup>c</sup>	+2.4 +8.9	+59.3 +1.6
<b>Galesburg</b>		\$ 121	7,246	\$ 4,031		n.a.	\$ 60
Percentage Change from	{ Nov., 1954 Dec., 1953	-65.8 +108.6	+2.3 +3.8	-6.9 -5.3	n.a.		+59.8 +4.5
<b>Peoria</b>		\$ 326	47,205 <sup>c</sup>	\$17,460		\$ 209	\$ 363
Percentage Change from	{ Nov., 1954 Dec., 1953	-58.5 -11.2	+1.0 +9.9	+3.9 +8.6	+52 <sup>c</sup> +9 <sup>c</sup>	+4.9 +9.6	+42.0 -9.9
<b>Quincy</b>		\$ 153	8,137	\$ 5,197		\$ 39	\$ 107
Percentage Change from	{ Nov., 1954 Dec., 1953	+86.6 +115.5	+7.5 +11.2	+2.1 +8.2	+45 +3	-1.4 +4.9	+52.1 +6.9
<b>Springfield</b>		\$ 257	30,010 <sup>c</sup>	\$13,390		\$ 109	\$ 337
Percentage Change from	{ Nov., 1954 Dec., 1953	-74.0 -49.8	+11.7 +7.9	-2.4 +7.4	n.a.	+9.2 +3.7	+80.1 +5.3
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b>		\$ 467	11,972	\$ 9,424		\$ 142	\$ 133
Percentage Change from	{ Nov., 1954 Dec., 1953	+798.1 +607.6	+6.7 -4.7	-4.5 +3.2	n.a.	-4.1 +2.2	+103.8 +8.4
<b>Alton</b>		\$1,292	11,876	\$ 4,963		\$ 39	\$ 62
Percentage Change from	{ Nov., 1954 Dec., 1953	+1,260.0 +1,556.4	+5.5 +6.7	-6.7 +0.9	n.a.	+15.5 +3.7	+60.1 +1.0
<b>Belleville</b>		\$ 284	5,950	\$ 4,515		n.a.	\$ 73
Percentage Change from	{ Nov., 1954 Dec., 1953	+28.5 -25.8	-0.5 +1.4	-0.0 +6.2	n.a.		+55.1 +3.6

<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for November, 1954, the most recent available. Comparisons relate to October, 1954, and November, 1953. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

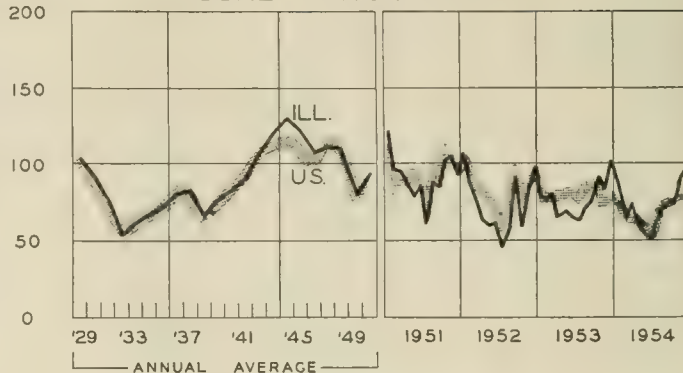
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

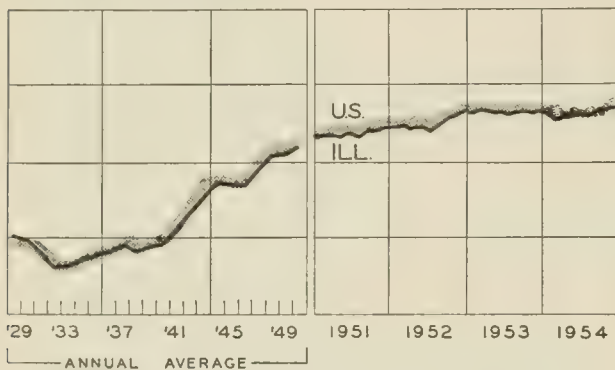
EMPLOYMENT - MANUFACTURING



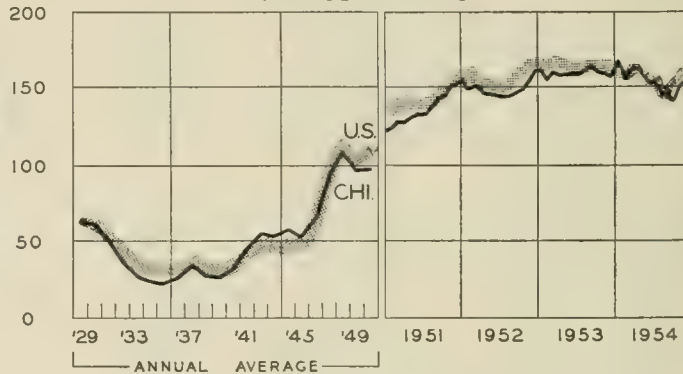
COAL PRODUCTION



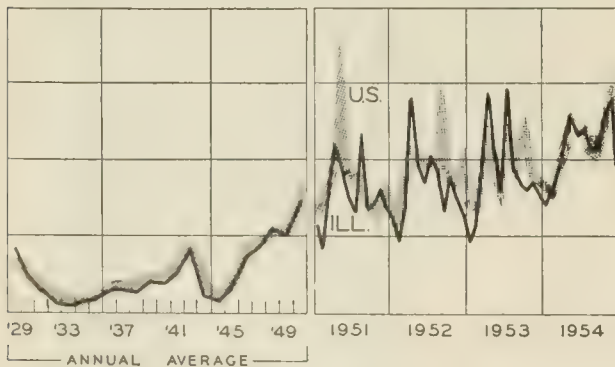
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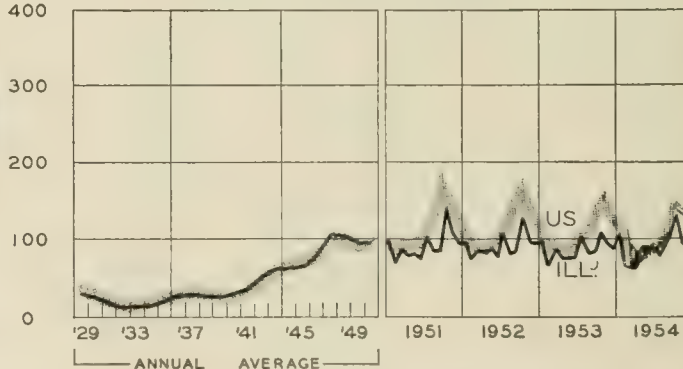
BUSINESS LOANS



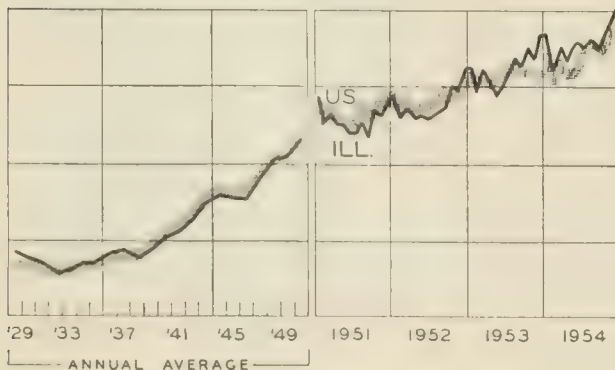
CONSTRUCTION CONTRACTS AWARDED



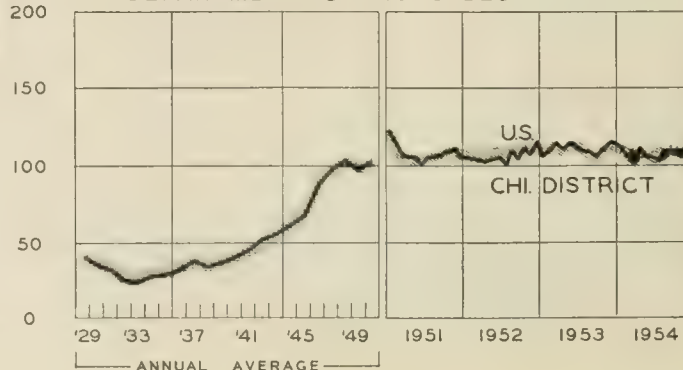
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

## A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME XII

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### HIGHLIGHTS OF BUSINESS IN FEBRUARY

Business activity continued to improve in February on a broad front. Increased activity was reported in many different industries, ranging from autos and appliances to textiles and coal. Steel production increased appreciably in February. The steel operating rate rose to nearly 92 percent of capacity in the last week of the month, and total production was higher than in any week since early June, 1953. Production of automobiles and many appliances remained at high rates in February while such previously depressed industries as coal and textiles appeared to be making sharp recoveries.

Department store sales in February were down somewhat from the previous month, after seasonal adjustments, but exceeded the level of sales last February by 2 percent. For the first two months of this year, sales of department stores were 6 percent higher than in January and February of last year.

#### Employment Down Slightly

About 200,000 fewer people were employed in February than in the preceding month or in last February. The decline in employment from the January level was due to continued layoffs in farm, construction, and other outdoor types of work and to a slight seasonal reduction in retail trade activity. Factory employment moved up sharply, particularly in machinery and primary metals, but not enough to offset the declines in the other sectors.

Unemployment in February totaled 3.4 million, slightly higher than in January. However, there were nearly 300,000 fewer unemployed than in February of last year, the first time this year-to-year comparison has been favorable since the fall of 1953.

#### Stability of Prices

For nearly two and one-half years, wholesale prices have exhibited remarkable stability. During a period in which the market value of the nation's quarterly production of goods and services rose from \$345 billion, at annual rates, to \$370 billion, then declined to \$355 billion and subsequently recovered, the Bureau of Labor Statistics index of wholesale prices has fluctuated within a range of less than 1.5 percent. At about 110.3 percent of its 1947-49 average, the February value of the index was much the same as in the preceding month and fractionally below the index figure for February, 1954.

This over-all stability, however, has not held for individual groups of commodities and is, in fact, the result of

cancellation of opposite movements in these groups. Since October, 1952, the wholesale prices of farm products have declined nearly 12 percent, on the average, and that of processed foods, more than 5 percent. These declines have been offset by rises in the prices of such other commodities as chemicals, machinery, minerals (both metallic and other), and particularly tobacco and bottled beverages.

#### Construction Sets New Record

No letup in the construction boom was evident in February. The value of new construction put in place set a new record for the month, although down seasonally by 5 percent from the January figure. The \$2.6 billion spent on new construction in February exceeded the previous record for the month, established in February, 1954, by 12 percent.

An upsurge in private building activity more than accounted for the rise, as outlays in this sector exceeded February, 1954, levels by 21 percent. This increase more than offset a decline of 8 percent in expenditures for new public construction relative to the February, 1954, figure.

Compared with construction activity in January, outlays for factories, warehouses, and office buildings declined less than usual, whereas expenditures for stores and other mercantile building actually rose, contrary to the usual seasonal pattern.

#### Manufacturers' Sales, New Orders

Manufacturers' business continued to improve in January, as new orders received during the month exceeded manufacturers' sales by over one billion dollars. Most of the excess was in durable goods industries, with new orders received by nondurable goods manufacturers being only slightly more than their sales in the month. As a result, unfilled orders on the books of durable goods producers rose nearly \$1 billion to \$45.4 billion, whereas unfilled orders of nondurable goods manufacturers increased \$200 million to \$2.9 billion.

Total sales of manufacturers in January amounted to \$24.2 billion, more than a billion dollars above the level of sales in January, 1954. Durable goods producers have benefited most from the sales recovery, their business increasing 7.3 percent while that of nondurable goods producers rose only 2.5 percent. On a seasonally adjusted basis, the sales of durable goods producers in January was somewhat higher than in the preceding month, whereas sales of nondurable goods were slightly lower.

# ILLINOIS BUSINESS REVIEW

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## Turnabout: 1947-1955

The early months of 1955 have brought a situation which contrasts strongly with that of early 1947. Then, business was just entering a great postwar boom, but most everybody took a gloomy view of economic prospects. Now, the boom has gone on expending its energy for eight years, but most everybody is optimistic about the outlook.

Today, as always, there is the tendency to project what is into what will be. The "new era" optimism of the late 1920's had seemingly firm foundations, and the "stagnation" theories of the late 1930's were supported by almost a decade of chronic unemployment. In early 1955, with the stock market forging ahead to new highs and the general economy near the all-time peak, it is easy to think in big terms about a rising future.

### The Optimists' Creed

The painful days of the Great Depression are not so long gone that they have ceased to serve as reminders of what can happen. The dangers are recognized; but the optimists have developed a new creed that offers a basis for brushing fears aside. This creed embodies a statement of changes in the economic and political structure of the community, instituted during the last two decades, which presumably ensure against any "deep depressions in the discernible future."

According to this view, there are factors that automatically come into play to support the economy whenever a decline gets under way. If these "built-in" stabilizers are not sufficient to stop it, the government will put still other measures into effect in order to carry out its responsibility under the Employment Act of 1946. Any recession will be limited, not only by these measures, but by strong natural growth trends in population, living standards, and other factors underlying economic demand.

The automatic stabilizers which help to maintain consumer income and spending on the decline include unemployment compensation, farm price supports, and highly flexible taxes. Their action has been demonstrated within the past year. Another factor usually placed in this category is the bolstering of the banking system by deposit insurance and other measures to prevent bank failures. As a result, there is nothing in the entire money or debt situation, with the possible exception of consumer credit, that poses any threat of an accelerating decline.

More positive action to counter a decline is looked for

in the sphere of other government programs, such as further tax rate reductions and expanded public works programs. It is frequently asserted that even if the politicians do not like such measures, they will act when the time comes, because the votes depend on it. Therefore, no Administration or Congress can ever again afford to stand by while unemployment mounts.

Underlying growth trends also have the effect of limiting declines and promoting earlier recovery. Even now they are at work, helping to keep the boom progressing. Many businessmen are currently investing in new plant and equipment on the theory that even if conditions don't remain good throughout the next decade, they will be good before it ends, so that capacity built now will surely be needed. This line of reasoning is commonly supported by "models" of the economy in 1960, 1965, or some other year judged to span an appropriate interval for investment planning.

### Chinks in the Armor

Altogether, this looks like a very impressive position. It is not so strong, however, that it offers any real guarantee against future depressions.

The automatic stabilizers, for example, are moderating influences only. They cannot prevent, but only cushion a setback; and their effectiveness will weaken as a decline progresses.

Dependence on government action may also be a bit unrealistic about both the mechanics of government programming and the magnitude of the problem. Nothing can be accomplished by just wishing. Specific proposals are always a matter of disagreement, debate, and controversy. Some measures will, of course, be approved. But how soon and how much? A major decline would require positive programs far beyond anything now contemplated. Belated action of modest dimensions would help to moderate such a decline, without bringing it to a halt.

Trends, too, though serving the needs of some businesses well, hardly provide a sound basis for considering future results assured. Their validity, whether or not they are supported by over-all models, depends on the series of assumptions implicit in their projection. The trends themselves may be modified considerably by changes in business activity, at least for extended periods—witness, for example, the pessimistic population projections that were generally accepted before and just after World War II. Moreover, trends say nothing about the crux of the problem—the potential large deviations that develop out of the business cycle. Throughout our history, upward trends have prevailed. They have not prevented past depressions, and at times their very existence was in doubt until developments again pushed activity up to new highs.

### Never Again So Bad

Although there are these qualifications on the optimistic view, the factors mentioned do have definite force for advance or for recovery. On the other hand, that view completely overlooks the fact that there are increasing elements of instability in the picture also. The forces of cyclical instability are inherent in our tremendous productive capacity and in the magnitude of the stocks of durable goods currently in use. The higher the capacity of an economy, the higher production can rise during the boom and the further it can fall on the decline. The larger the stocks of durable goods in use, the longer essential services can be provided without new production of such goods.

(Continued on page 6)



## MINERAL PRODUCTION

The production of minerals in Illinois is not always considered a principal industry. However, during each of the past five years, Illinois has turned out minerals valued at a half billion dollars or more, and in 1953 the State ranked seventh in the nation in the total value of mineral output.

In 1953 the value of Illinois mineral production was as follows:

	1953 (thousands of dollars)	Percent increase 1939-1953	Percent of U.S. production
Total.....	502,625	134	n.a.
Fuels			
Coal (bituminous).....	180,647	131	10.2
Petroleum and gas.....	184,091	81	2.5
Stone, rock products.....	57,355	259	6.1*
Clay, clay products.....	47,445	310	10.0
Sand and gravel.....	17,161	236	5.6*
Fluorspar.....	9,050	452	55.1
Other.....	6,877	522	n.a.

n.a. Not available.

\* 1952 percentage.

Coal and petroleum remain the leading resources in terms of value, but limestone, fluorspar, stone, and gravel are substantial contributors which are rapidly becoming more important.

## Fuels

The basic fuels in common use today are coal, petroleum, and natural gas, with coal being the most important single source of energy. Illinois, the fourth largest coal-producing state, provides 10 percent of the nation's bituminous coal and has estimated reserves of 137 billion tons, or about 300 times the 1953 output.

Although there has been a steady increase in coal consumption by the electric utility and steel industries, the over-all trend appears to be downward. The explanation lies in the sharp decrease in coal consumption by its other principal customers—the railroad industry and commercial and residential users. During 1953 the railroads used only 35 percent of the amount used in 1939 because of the large increase in the use of Diesel-electric locomotives. Out of 1,990 new locomotives delivered, 1,972 were Diesels, four gas turbine-electric, and only 14 of the coal-burning type.

Illinois ranks eighth among the states in volume of oil production, but this high rank looks less impressive in terms of percentage of total output. Owing to the high concentration of output in a few key states, Illinois produced only 2.5 percent of the nation's petroleum. Of the 59 million barrels produced in Illinois in 1953, more than 12 million barrels or 20 percent of the State's total oil production is attributed to secondary water flooding operations. This procedure consists of pumping into a high-pressure injection system a solution of water and brine, which in turn rebuilds the pressure within the well, thus allowing the pumping of much petroleum which could not be recovered otherwise.

Production of natural gas in 1953 totaled more than

35 billion cubic feet with the bulk of this being solution gas from oil wells. Less than a quarter billion cubic feet came from gas wells in oil fields, and only 39 million cubic feet from gas fields. With only 272 million cubic feet of gas being consumed during the year, many gas wells have been shut in or abandoned because of a lack of market.

## Stone, Clay, and Gravel

Limestone is the dominant element in the Illinois stone industry. It is an extremely versatile mineral, its principal uses being for concrete, agriculture, metallurgy, and cement production. Illinois ranks third among the states both in value and in amount of limestone and other stone products produced annually.

Illinois also leads in the production of portland cement and is one of the largest consumers of cement in the nation. The ingredients used to make portland cement—lime, silica, iron, oxide, and gypsum—are all found in plentiful quantities within the State. With the continued increase in building and road construction, the cement industry seems assured of an increasingly important position in our expanding economy.

Illinois is the top brick-producing state in the nation. The brick companies also make other clay products such as hollow tile, sewer pipe, drain tile, flue lining, and floor, wall, and roofing tile. These structural clay items, together with pottery and whiteware, produced an income of nearly \$50 million in Illinois in 1954.

The largest single use for Illinois sand and gravel is in building construction, with paving and roads next in importance. Silica sand—used largely for glass, blast sand, steel-moulding, grinding, and polishing—is mined chiefly by open-pit methods. The principal output is concentrated in the Ottawa district, the leading center of silica sand production in the United States.

## Chemicals

An important use of limestone is in agriculture where it is finely ground and used as a fertilizer. Such limestone, commonly called agstone, serves as an alkali to neutralize the acidity of the soil. Illinois has numerous deposits of agstone and ranks first among the states in the amount of liming material used in soil treatment.

The largest deposits of fluorspar in the United States are found in southern Illinois and constitute 50 to 60 percent of the nation's production. This mineral is used extensively in the manufacture of steel, aluminum, glass, enamel, hydrofluoric acid, and many fluorine compounds.

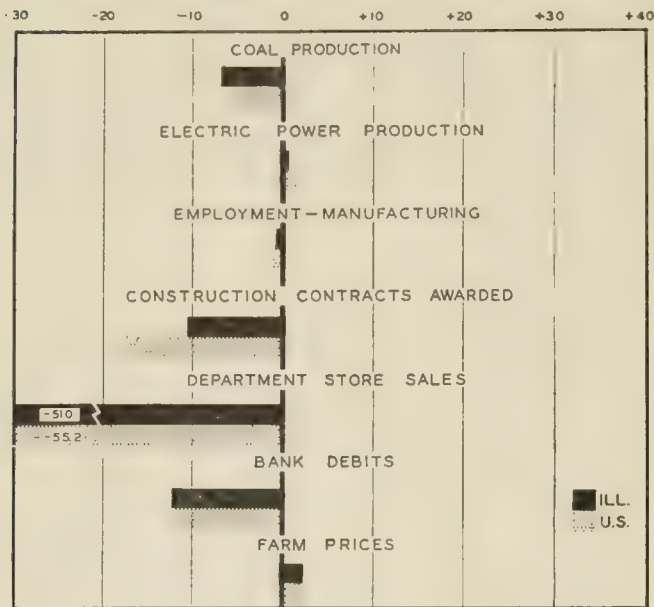
The increasing demand for fluorspar in recent years has been met by sharp increases in imports from abroad as well as by high local production. In 1953 imports of fluorspar exceeded domestic output by 11 percent. Although foreign competition has depressed local production somewhat, it has also served to reduce the pressure on our reserves. By taking advantage of foreign mine output, our present deposits will not be depleted so rapidly as in the past, and may be preserved for any national emergency.

KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes December, 1954, to January, 1955



## ILLINOIS BUSINESS INDEXES

Item	January 1955 (1947-49 = 100)	Percentage Change from Dec. 1954	Jan. 1954
Electric power <sup>1</sup>	205.2	+ 0.6	+12.1
Coal production <sup>2</sup>	87.7	- 7.0	+ 0.5
Employment—manufacturing <sup>3</sup>	101.4	- 0.7	- 3.7
Weekly earnings—manufacturing	137.8 <sup>a</sup>	+ 1.1	+ 2.5
Dept. store sales in Chicago <sup>4</sup>	109.0 <sup>b</sup>	- 0.9	+ 6.9
Consumer prices in Chicago <sup>5</sup>	117.0	0.0	+ 0.3
Construction contracts awarded <sup>6</sup>	172.1	-10.6	+22.3
Bank debits <sup>7</sup>	149.2	-12.4	+ 7.0
Farm prices <sup>8</sup>	85.0 <sup>c</sup>	+ 2.4	-11.5
Life insurance sales (ordinary) <sup>9</sup>	173.8	-10.5	+21.0
Petroleum production <sup>10</sup>	116.1	+ 4.6	+22.2

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.  
<sup>a</sup> December data; comparisons relate to November, 1954, and December, 1953. <sup>b</sup> Seasonally adjusted. <sup>c</sup> Revised series.

## UNITED STATES MONTHLY INDEXES

Item	January 1955	Percentage Change from Dec. 1954	Jan. 1954
Personal income <sup>1</sup>	290.7 <sup>a</sup>	- 0.2	+ 2.0
Manufacturing <sup>1</sup>			
Sales	297.6 <sup>a</sup>	0.0	+ 3.8
Inventories	43.6 <sup>a, b</sup>	- 0.2	- 6.0
New construction activity <sup>1</sup>			
Private residential	13.1	-10.1	+33.7
Private nonresidential	11.2	- 5.3	+ 4.7
Total public	8.8	- 6.3	0.0
Foreign trade <sup>1</sup>			
Merchandise exports	15.7 <sup>a</sup>	+ 5.6	- 3.1
Merchandise imports	11.3 <sup>a</sup>	+12.3	+ 3.9
Excess of exports	4.4 <sup>c</sup>	- 8.4	-17.2
Consumer credit outstanding <sup>2</sup>			
Total credit	29.7 <sup>b</sup>	- 1.5	+ 3.3
Installment credit	22.4 <sup>b</sup>	- 0.1	+ 2.7
Business loans <sup>2</sup>	22.1 <sup>b</sup>	- 1.9	- 2.0
Cash farm income <sup>3</sup>	28.8	-14.3	-11.1
Industrial production <sup>2</sup>			
Combined index	131 <sup>a</sup>	+ 0.8	+ 4.8
Durable manufactures	146 <sup>a</sup>	+ 0.7	+ 3.5
Nondurable manufactures	119 <sup>a</sup>	+ 0.8	+ 5.3
Minerals	121 <sup>a</sup>	+ 3.4	+ 7.1
Manufacturing employment <sup>4</sup>			
Production workers	102 <sup>a</sup>	- 0.2	- 3.6
Factory worker earnings <sup>4</sup>			
Average hours worked	101	- 1.0	+ 2.0
Average hourly earnings	138	+ 0.5	+ 2.2
Average weekly earnings	140	- 0.4	+ 4.3
Construction contracts awarded <sup>5</sup>	197	-17.8	+30.6
Department store sales <sup>2</sup>	117 <sup>a</sup>	- 0.8	+ 9.3
Consumers' price index <sup>4</sup>	114	0.0	- 0.8
Wholesale prices <sup>4</sup>			
All commodities	110	+ 0.6	- 0.6
Farm products	93	+ 3.3	- 5.0
Foods	104	+ 0.2	- 2.4
Other	115	+ 0.3	+ 0.6
Farm prices <sup>3</sup>			
Received by farmers	90	+ 2.3	- 6.2
Paid by farmers	113	+ 0.9	0.0
Parity ratio	86 <sup>d</sup>	0.0	- 6.5

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for December, 1954; comparisons relate to November, 1954, and December, 1953. <sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1955					1954
	Feb. 19	Feb. 12	Feb. 5	Jan. 29	Jan. 22	Feb. 20
Production:						
Bituminous coal (daily avg.).....thous. of short tons.	1,489	1,448	1,450	1,473	1,423	1,208
Electric power by utilities.....mil. of kw-hr.	9,912	9,922	10,047	10,003	9,981	8,551
Motor vehicles (Wards).....number in thous.	188	183	183	183	184	137
Petroleum (daily avg.).....thous. bbl.	6,767	6,719	6,721	6,677	6,695	6,320
Steel.....1947-49 = 100	125	122	120	119	117	103
Freight carloadings.....thous. of cars	655	644	641	642	636	619
Department store sales.....1947-49 = 100	90	92	86	87	95	86
Commodity prices, wholesale:						
All commodities.....1947-49 = 100	110.3	110.3	110.4	110.1	110.1	110.5 <sup>a</sup>
Other than farm products and foods.....1947-49 = 100	115.4	115.5	115.4	115.2	115.1	114.4 <sup>a</sup>
22 commodities.....1947-49 = 100	91.5	92.0	91.8	91.7	91.0	87.8
Finance:						
Business loans.....mil. of dol.	22,251	22,096	22,054	22,063	22,163	22,555
Failures, industrial and commercial.....number	205	238	264	255	265	215

Source: Survey of Current Business, Weekly Supplements.

<sup>a</sup> Monthly index for February, 1954.



# RECENT ECONOMIC CHANGES

## Loans Up Slightly

Business loans increased slightly in February, counter to the usual seasonal movement. The rise carried commercial, industrial, and agricultural loans to \$22.2 billion, just \$200 million below the February, 1954, total. Between the end of December and the end of February, business loans declined only \$250 million compared with more than \$900 million in the first two months of 1954.

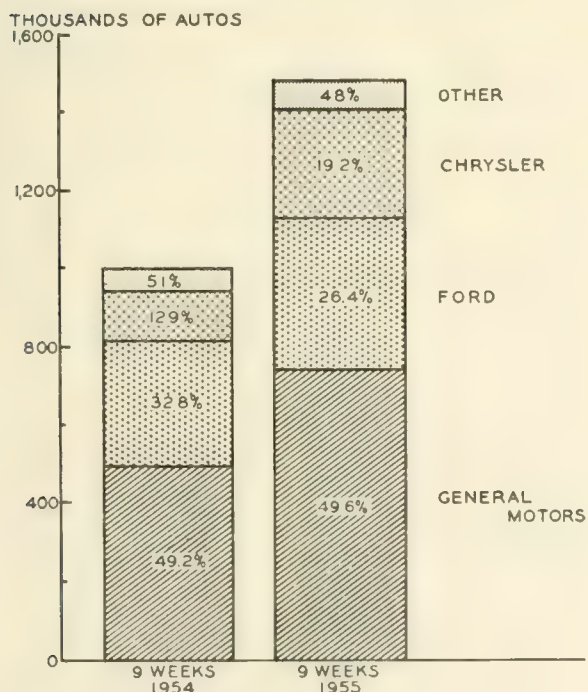
A number of industries that liquidated loans early last year increased their borrowing this year. Included were the metal and metal products industry—reflecting the large increases in auto and steel production—sales finance companies, construction, and the petroleum, coal, chemical, and rubber industries. Textile, apparel, and leather firms increased their loans considerably more than last year.

## Auto Output

The automobile industry in the opening nine weeks of 1955 produced about half again as many cars as in the same 1954 weeks. Production for the year to March 4 amounted to almost 1.5 million autos compared with just under 1.0 million last year. Sales were also well above the same 1954 period although a considerable share—more than 10 percent—of current production is going into dealers' inventories.

As shown by the accompanying chart, noticeable shifts occurred in the auto companies' shares of production between early 1954 and 1955. Ford's share of the market fell off sharply as did, to a lesser extent, that of the independents. Chrysler regained much of the ground lost to Ford in 1953 and 1954, though not enough to bring it back to its position in 1952. In that year, General Motors

**AUTOMOBILE PRODUCTION**



Source: *Automotive News*

accounted for 41 percent of total production, Ford and Chrysler each accounted for about 22 percent, and the independents for about 15 percent.

## GNP Advances

After nine months of virtual stability, gross national product turned up sharply in the fourth quarter of 1954. Output of goods and services rose by \$6.5 billion to a seasonally adjusted annual rate of \$362 billion.

Over half of the increase resulted from a \$3.5-billion reduction in the rate of inventory liquidation between the third and fourth quarters. Personal consumption expenditures were up almost \$3.0 billion to account for much of the remainder of the advance in total output. Slightly higher construction expenditures (seasonally adjusted) and a shift from a deficit to a surplus position in the foreign investment account offset a further drop in Federal government expenditures during the quarter.

## GROSS NATIONAL PRODUCT OR EXPENDITURE

	(billions of dollars)		
	1954	1953	4th Qtr. 1954*
Gross national product.....	357.2	364.9	362.0
Personal consumption.....	234.0	230.1	237.7
Durable goods.....	28.9	29.7	29.9
Nondurable goods.....	120.5	118.9	122.1
Services.....	84.6	81.4	85.7
Domestic investment.....	46.1	51.4	49.5
New construction.....	27.6	25.5	29.1
Producers' durable equipment..	22.2	24.4	21.7
Change in business inventories..	-3.7	1.5	-1.3
Nonfarm inventories only....	-3.8	2.2	-1.6
Foreign investment.....	-4	-1.9	.8
Government purchases.....	77.5	85.2	74.1

## INCOME AND SAVINGS

National income.....	300.0	305.0	n.a.
Personal income.....	286.5	286.1	289.0
Disposable personal income.....	253.5	250.1	255.9
Personal saving.....	19.5	20.0	18.2

\* Seasonally adjusted at annual rates.

For the year, gross product totaled \$357.2 billion, 2 percent below 1953 but 3 percent over 1952. Consumer expenditures increased by \$4 billion during the year to mitigate declines in other sectors. The most prominent of these was a \$7.7-billion drop in government expenditures. State and local outlays were up by \$2.4 billion during the year, but Federal expenditures for national security were reduced by \$8.4 billion and other Federal expenditures were also down.

Responding to the decline in security outlays and other sales, inventories were liquidated by \$3.7 billion during the year, compared with an accumulation of \$1.5 billion in 1953. This decline was accompanied by lower outlays for producers' durable equipment, but private investment in fixed capital as a whole was maintained by increased home building.

## Security Offerings Near Peak

Corporations offered a larger volume of securities for cash sale last year than in any year since 1929. Total offerings amounted to \$9.6 billion, 8 percent above 1953. About \$7 billion was for financing plant and equipment and working capital requirements. This was down a billion dollars from a year earlier mainly because of a sub-

stantially smaller need for external working capital in 1954. The reduction was more than offset by a \$1.6-billion increase in refunding issues during the year, the largest volume of such issues floated since 1946.

Electric, gas, and water utilities offered nearly 40 percent of last year's total volume of new issues. Offerings by this group amounted to \$3.7 billion, up \$700 million from 1953. New issues by manufacturing concerns, at \$2.3 billion, were the same as a year ago and accounted for about a fourth of the total. This is in contrast to 1952 when manufacturing corporations issued a record \$4.0 billion, 92 percent of that year's offerings. Financial and real estate flotations declined sharply, from \$1.6 billion in 1953 to \$1.1 billion last year, reflecting reduced demand for credit from sales finance and commercial credit companies.

## Foreign Trade in 1954

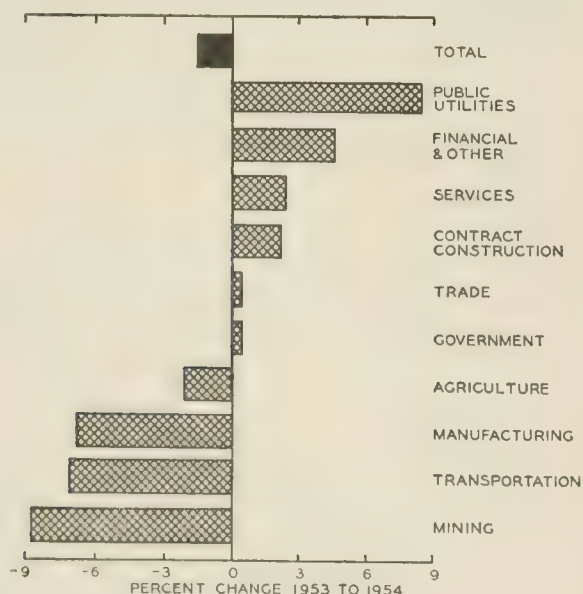
Foreign buyers increased purchases from this country last year despite reduced imports by the United States. Exports excluding military shipments rose by almost a half billion dollars to \$12.8 billion last year. Imports amounted to \$10.2 billion compared with \$10.9 billion the year before. Most of the decline in imports centered in metals, fibers, rubber, fats and oils, hides and skins, and other industrial raw materials.

Higher exports to Western European countries more than offset declines in shipments to Canada, Latin America, and some other areas. The increased demand from Western Europe reflected continued expansion of manufacturing activity, particularly in the Netherlands, Germany, and the United Kingdom, and need for such United States materials as nonferrous metals, cotton, and industrial chemicals.

## Industrial Origin of National Income

Last year's decline in business activity was concentrated in a few major sectors of the economy. As indicated by the accompanying chart, four industries accounted for the drop—manufacturing, mining, transportation, and agriculture.

INDUSTRIAL ORIGIN OF NATIONAL INCOME



Source: U. S. Department of Commerce.

The reduction in agriculture was small compared with 1952 and 1953, but income originating in the other three industries—which accounted for 37 percent of total national income last year—was down by \$8.2 billion from 1953. About \$6.5 billion of this decline was in manufacturing, much of which was concentrated in the metal and metal products industries. Reductions in mining and transportation for the most part reflected the cutback in manufacturing and reduced demand for raw materials and shipping facilities.

## Employment Steady

Only small changes occurred in employment and unemployment between January and February. Employment was down slightly, as increased manufacturing employment failed to balance seasonal cutbacks in farm and construction activity during the month.

Unemployment was about the same as in February. Census data in thousands of workers are as follows:

	February 1955	January 1955	February 1954
Civilian labor force.....	63,321	63,497	63,725
Employment.....	59,938	60,150	60,055
Agricultural.....	5,084	5,297	5,704
Nonagricultural.....	54,854	54,853	54,351
Unemployment.....	3,383	3,347	3,670

Accompanying last month's increase in factory employment was some lengthening of the workweek. The average workweek amounted to 40.5 hours, about twenty minutes longer than in January and almost an hour longer than in February, 1954.

## Turnabout: 1947-1955

(Continued from page 2)

As we move into 1955 the broad picture is that of an economy facing increasing saturation with durable goods of all kinds: plant and equipment, houses, autos, and other consumers' durable goods. High current rates of investment in durables of all kinds imply a degree of overproduction that has to be corrected after a while. When it is corrected, the decline cannot be compensated by a rise in consumption so as to maintain the level of activity; for when investment is cut back, consumption will drop also. In these circumstances lies the basis for the next major setback.

The balance between the structural changes making for increased stability and those making for increased instability depends primarily on the vigor of government action. The likelihood of extremely vigorous action is perhaps enhanced by the possibility of stepping up military programs, though it is generally conceded that such action would be inappropriate for domestic reasons alone. The balance has hardly been changed so much, however, as to prevent declines entirely.

Every postwar boom has wound up in a major depression, and there is no reason to think that this one will have a different ending. Barring large new military programs, this one seems unlikely to continue through the last half of the decade. Taking everything into account, we may concede that the next depression won't be so bad as the last. That doesn't mean, however, that it couldn't be bad enough. In 1933, 12 million workers, one-fourth of the labor force, were unemployed. But the labor force has grown. If only one-eighth of the 1955 labor force were thrown out of work, there would be 8 million unemployed. The problem for the policy makers is how to prevent such a development.

VLB



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Why People Buy Durables

A bulletin reporting the results of a pilot study on factors influencing durable goods purchases and plans has just been released by the Bureau of Economic and Business Research. It is based on a series of interviews concerning possible, probable, and actual purchases of durable goods as well as the motives behind them. The importance of the respondent's outlook on political and economic trends to his plans and purchases of durable goods was also studied.

The survey used a panel technique, whereby the same families were interviewed periodically, rather than the customary spot interviews. Attempts were made to determine such things as whether or not purchases of consumer durables are planned well ahead of the actual time of purchase, if certain groups plan and others do not, which groups fulfill their plans and which do not, what factors enter into the making of plans and into their final fulfillment, and what effect expectations have on plans and their realization.

Entitled *Factors Influencing Durable Goods Purchases*, this bulletin, by Professor Robert Ferber of the University of Illinois, is available from the Bureau for \$1.00.

### Liquid Lead Pencils

A new product and a new arrangement for marketing it are making news this spring. The product is a ballpoint pencil which uses liquid graphite contained in a changeable capsule. Advantages of this over conventional lead pencils are that the point will not wear or break and that one capsule will enable the user to write six times as long as with an ordinary pencil. The marks made by the liquid lead look very much like those of hard lead and can be erased almost as easily.

The arrangement is between two competitors to share formulas, trade names, and marketing facilities. The Parker Pen Company was the first to hit the press with news of the liquid graphite, but Scripto beat them to the market. The result is an agreement between the two companies that Scripto will make the less expensive pencils, using the Parker formulas, and Parker will sell models priced at \$5.00 or more.

### American Films Abroad

Earnings of United States motion pictures abroad were at a record high of \$200 million in 1954, according to the Department of Commerce. Since foreign revenues make up almost 40 percent of total earnings, this means a considerable boost for the industry as a whole.

Two reasons are given for this increase in earnings. One is the export of carefully selected films having the greatest appeal. American movies accounted for almost 70 percent of all showing time in the free world during 1954. The proportion was lowest in Europe (55 percent) and, except for the United States itself, was highest in Latin America, where it was about three-fourths of all showing time. The other reason is the growth in facilities overseas. The number of theaters in the free world has increased about 10 percent since 1951, and seating capacity has risen 5 percent.

Competition from foreign-produced films, particularly from European nations, has increased sharply in the past few years. In 1951 the United States accounted for 74

percent of the films shown, whereas its share in 1954 was only 68 percent.

### Liquid Asset Holdings

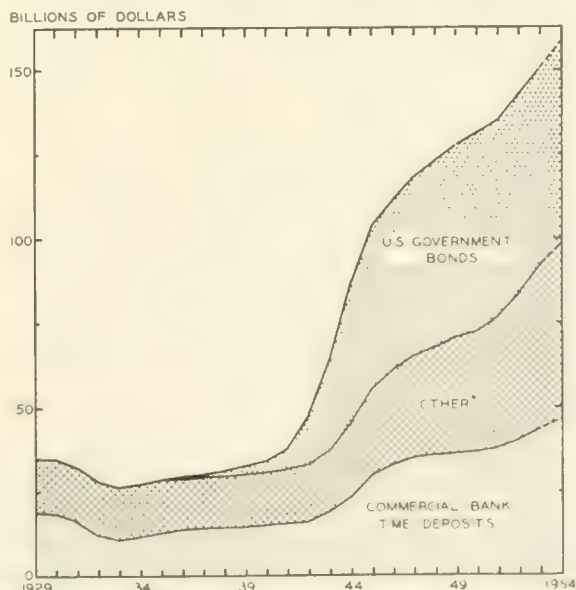
The year 1954 brought another increase in the liquid assets held by Americans. Preliminary figures set total savings for the year at \$19.5 billion. Of this, about \$6 billion was accumulated in the forms charted below, bringing their total to a record \$157 billion. It should be noted that this chart does not include any changes in the holdings of currency or demand deposits, which often are an important part of liquid assets.

About half of the \$6-billion annual gain of the selected liquid assets last year was in the deposits of savings and loan associations, and most of the remainder was in the time deposits of commercial banks. United States savings bonds, after suffering a slight drop in 1953, held their own during 1954. Postal savings, on the other hand, continued their gradual decline.

The chart below pictures the growth of these liquid assets over the past twenty-five years. The depression years brought a goodly amount of dissaving, but after 1933 the upward climb of savings was resumed. The years 1941 through 1945 saw the sharpest rise yet recorded. This was the result of war-induced prosperity and restricted consumption during those years. Most of the increase was in holdings of savings bonds, which had strong appeal both from a patriotic and from an investment point of view.

Since the close of the war, the accumulation of these liquid assets has continued, but at a much slower rate. Although wages and salaries have remained high, much of this money has been put into consumer durables rather than into savings. The one sector which has risen sharply is savings and loan association deposits, which are now almost five times their amount in 1945.

LIQUID ASSET HOLDINGS, 1929-54



\*Savings associations, mutual savings banks, postal savings.  
†Estimated.

Sources: U. S. Savings and Loan League; Federal Reserve Board.

# WHERE OUR NATIONAL ECONOMY IS HEADING

GROVER W. ENSLEY, Staff Director

Joint Committee on the Economic Report, United States Congress

From earliest times Americans have liked to set goals for themselves. Actual developments have usually exceeded these goals; particularly is this true in the economic area.

In the late 1920's, when the nation was thinking in terms of a "new era," I doubt if many visionaries thought, or economic analysts assumed, that in the short span of the following 25 years, while overcoming the twin disasters of a deep, prolonged depression and an exhausting world war, we would increase population nearly one-third; reduce the average workweek four hours; increase output per man-hour 75 percent; double national production in constant prices; and raise real disposable incomes per capita nearly 50 percent.

Perhaps one reason achievements have typically exceeded expectations lies precisely in this characteristic persistence of Americans in looking ahead. But looking ahead is not a complete explanation of our phenomenal progress. More important is the inherent eagerness of Americans to adjust plans, to change traditional ways of doing things, to work hard, and even to pull up stakes and move in an attempt to be more productive, to raise living standards, and to secure greater freedom.

The question of where our economy is heading is a subject uppermost in the mind of every person connected with the machinery of the Employment Act of 1946. The Joint Economic Committee staff constantly projects trends of population, labor force, hours of work, productivity, and the trends, plans, and expectations of government, business, and consumers to see if they throw light on where our economy "may" be heading. The staff has recently assembled what we hope is a reasonable and consistent set of economic projections of these factors for the next decade. We have sought to construct a nation's economic budget by major segments for 1965. These materials are not presented as a forecast or prediction of what will actually happen in 1965. Rather they are projections of what could happen. Whether they happen will depend upon the reasonableness of the assumptions.

## Population

A look at population trends is the first important step. On the basis of present fertility rates, our population can be expected to increase to about 190 million people by 1965, compared with just under 160 million in 1953 and slightly more than 162 million currently. This increase of approximately 30 million in twelve years (between 1953 and 1965) represents an annual increase of about 2.5 million each year and is predicated on the assumption that the period will be one of well-sustained economic activity. If a depression occurs, we could not expect such rapid population growth.

From an economic standpoint, the changing composition of the population between 1953 and 1965 is perhaps more significant than the expected 19 percent growth in the total. For example, the labor force will probably increase only about 18 percent. In contrast, the number of children under 18 will likely increase 28 percent and the number of persons over 65 will increase by 30 percent. The effect of these population changes during the next decade will be to increase the demand for food, clothing, shelter, and other consumer goods and services, on the

one hand, and to decrease the rate of savings of the family breadwinner on the other.

## Factors Making for Growth

Let us now analyze more specifically the factors making for economic growth on the supply, or production, side during the next few years. These are the size of the labor force, hours of work, and productivity.

On the basis of present knowledge of trends in participation rates the total labor force in 1965 should be about 79 million. Taking into account present cold-war requirements, perhaps 3 million will be in the armed services. It is also arbitrarily assumed that approximately 4 percent of the civilian labor force will be temporarily unemployed as a result of technological changes and normal turnover in a dynamic and expanding economy.

These assumptions suggest civilian employment of 73 million persons in 1965 as compared with approximately 62 million in 1953. Another 7.5 million persons seem likely to be employed in civilian government—Federal, state, and local—compared with 6 million in 1953. These calculations leave 65 million persons in private employment in 1965—an increase of just over 10 million from 1953.

Average hours of work are expected to continue to decline. This might take the form of a reduction in the workweek by 1965 of as much as four hours, or an increase in vacation or holidays of 20 to 25 days per year, or some combination of these alternatives, adding up to a reduction of about 200 hours per year per man by 1965. A three-day week-end is something to look forward to in the years ahead. The economic and social implications of this trend cannot be minimized. Additional investment and consumer expenditures to satisfy the leisure-time hobbies and educational and cultural pursuits of the population should be a substantial expansionary force.

The third factor affecting potential production in 1965 is, of course, productivity, as measured in terms of output per man-hour. Here lies the real secret of American economic strength. Intensive research and development plus a high level of investment by industry and agriculture are expected to make possible continued spectacular advances in output per man-hour worked.

It is assumed that agricultural output per man-hour will increase 3 percent per year, somewhat less than in recent years, but higher than the 1910-53 average of about 2 percent. In nonagricultural industries the rise is assumed to be about 2.5 percent per year on the average. This is above the 1910-53 average, but is edged a bit upward because of the effects of a high rate of investment and of technological advance.

One implication of this trend is that fewer workers will be needed on farms. Those who remain on the farm must be more highly skilled. Industry must provide proportionately more job opportunities. Increasing numbers of workers in all fields of endeavor will be called upon to make employment adjustments—to learn new skills, move to new locations, develop abilities for leisure.

## Factors on the Demand Side

Efforts to arrive at acceptable assumptions respecting factors making for economic growth on the demand side present a much more difficult and hazardous task.



Total government expenditures for goods and services—Federal, state, and local—could exceed \$95 billion in 1965, compared with \$85 billion in 1953. Unless the international situation changes materially, national defense programs could require Federal expenditures of about \$40 billion per year. Public civilian construction could amount to at least \$17 billion compared with \$10 billion in 1953. There will be increases in other government civilian expenditures as the population grows and as pay-scales increase generally.

As a first approximation, the Federal budget is assumed to be balanced in 1965 at levels permitting tax reductions of perhaps 15 to 20 percent below hypothetical yields at present rates. We would expect a state and local government deficit of some \$2 billion—reflecting the financing of schools, highways, hospitals, and other public investment expenditures necessary on a vast scale to keep up with a rapidly growing population.

Estimates of the rate of private investment during the next decade have been made on the assumption that population growth, research and development, and intense competitive pressures will greatly expand business investment opportunities. We have estimated that residential nonfarm construction will increase from \$12 billion in 1953 to \$16 billion in 1965 to achieve and maintain the stock of housing demanded by the anticipated 56 million households. This is equivalent to adding about 1½ million new housing units per year as compared with slightly more than 1 million in 1953 and 1954.

Business expenditures on plant and equipment are assumed to amount to \$60 billion per year—approximately 60 percent over 1953. This figure is made up of about \$25 billion to replace fixed assets actually retired, and about \$35 billion for accelerated replacement of obsolete but not worn-out assets and for the expansion of capacity. The development of atomic and, possibly, solar energy for peacetime uses on a practical scale would open the way to huge investment expenditures to provide cheap and virtually unlimited power to every geographic location.

The area that could either most contribute to or disturb balanced economic growth over the next decade will be the pattern of consumer budgeting of income between savings and spending. If personal savings, for example, amount to about 6 percent of personal dispos-

able income, as compared with 7.7 percent in 1954, consumer demand would approximate \$360 billion in 1965 as compared with \$230 billion in 1953. The reasonableness of such a relatively low rate of savings a decade hence can be questioned, but we are impressed by the argument that American families will be buying more for their youngsters, with a consequently reduced capacity to save.

On the basis of the assumptions set forth above, the aggregate demand of government, business, and consumers will clear the market of the \$535-billion potential production. If events are to approximate this model, personal expenditures for consumption must, by one means or another, increase significantly. It is believed that this adjustment, as well as most of the others that may be needed, can come about as usual through the spontaneous adaptation of the free private competitive system. But I would emphasize the important role of government monetary and fiscal policies in facilitating this expansion.

## Reasons for Optimism

In spite of the obvious difficulty involved in making some of these adjustments, there are reasons for being optimistic about the outlook for long-run stability and growth. First of all, the American spirit of enterprise gives industry, agriculture, and labor a competitive drive to always surpass the achievements of the past.

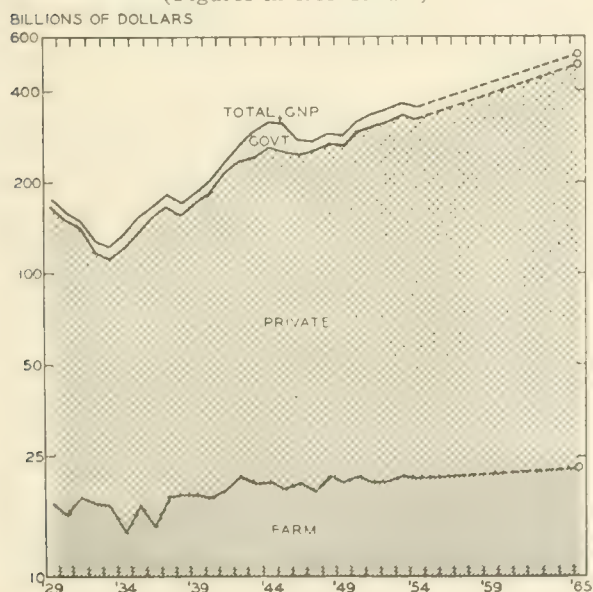
A second force for economic expansion is the demand on the part of the average American constantly to raise his level of living. In recent years housewives, youth, and the aged have been taking jobs whenever given an opportunity, in order to supplement family income and buy that television set, refrigerator, or what-not. I see no reason why we should witness any lessening of this driving force during the next decade.

A third factor important at present, and particularly promising for the future, is the new machinery and the evolutions of skill—both public and private—for making economic adjustments. The Employment Act of 1946 is an illustration of the recent recognition of the cooperative responsibility of the Federal government for dealing with problems of economic fluctuation and growth.

The moderate projections presented here for 1965 suggest the probability during the 12 years between 1953 and 1965 of an increase in population of one-fifth; a reduction of the average annual hours of work of nearly 10 percent; an increase in output per man-hour of 40 percent in agriculture and 35 percent in private industry; an increase in total national output of nearly 50 percent in constant prices; and a rise in real disposable income per capita of nearly 30 percent. The accompanying chart, which uses a ratio scale, compares projected 1965 gross national product with past trends.

No discussion about where our economy may be heading would be complete without a word about the cold war. This struggle may necessitate even greater expenditures than those assumed in our projections. This, of course, has far-reaching implications for living standards and for general economic policy for the years ahead. The thesis of some people that the economy must experience significant economic fluctuations to strengthen the basic structure and eliminate the inefficiency and waste cannot be accepted today. Our position of world leadership in a struggle for survival against imperialistic communism necessitates that the American economy remain constantly strong. We must fully utilize our human resources, for only through production can we provide direct and indirect proof to the rest of the free world and the vast uncommitted areas of the world that our way of life is best.

**GROSS NATIONAL PRODUCT, 1929-65**  
(Figures in 1953 dollars)



# LOCAL ILLINOIS DEVELOPMENTS

Seasonal declines highlighted the movements of Illinois business indicators during the month of January. Department store sales fell more than 50 percent from their December level. Drops of 10 to 12 percent were recorded in construction contracts awarded, bank debits, and life insurance sales.

For trend comparisons, the relations of the January, 1955, indexes to those of a year earlier are more meaningful. Construction contracts and life insurance sales, despite their seasonal declines, were more than 20 percent ahead of January, 1954. Petroleum production was also more than 20 percent greater than a year ago. Both department store sales and bank debits showed increases of 7 percent over 1954.

## Electric Power Consumption

Electric power consumed in sixteen selected Illinois cities totaled about 1 percent lower in 1954 than in 1953. Only four reporting areas showed declines, and these were smaller percentage-wise than most of the gains recorded. However, the drops occurred in the four largest cities in the State—Chicago, Peoria, Rockford, and East St. Louis—and their influence more than offset the rise in use in the other ten areas. Chief among the causes of these four declines was the cutback in the production of heavy industry last year which reduced the power needs of these areas.

As may be seen in the chart, gains in the other ten areas ranged from 0.3 percent in the Rock Island-Moline area (which was also hit by the cutbacks in heavy industry operation) to 10.4 percent in Danville, which is currently undergoing industrial expansion. With half of the reporting areas using over 6 percent more power in 1954

than in 1953 and others showing some gains, the importance of the slight drop in total use by our sample is somewhat mitigated.

## Securities Registration

Last year was the first effective year of the new Illinois Securities Act of 1953, a law formulated to rid the State of the troubles caused by the ambiguous and oft-amended law of 1919. It provides for the registration of all new securities to be offered in Illinois and for the registration of dealers and salesmen of these securities in an effort to prevent fraudulent sales in Illinois.

Booming securities markets in 1954 were a fertile ground on which to test the new act. In all, 155 applications for security registration were made; of these 129 were approved. The registrations totaled \$827 million, up 30 percent from 1953 and the largest volume since World War II. Almost three-fourths of these were debt offerings, leaving an unusually low percentage for equity securities. Four industries accounted for almost 95 percent of all the securities registered—electric, gas, and water, finance and investment, manufacturing, and transportation and communications.

## Agricultural Credit

Rising credit demands in the fourth quarter of 1954 boosted the amount of agricultural loans outstanding 24 percent in the northern two-thirds of Illinois, enough to bring the annual gain up to 5 percent, according to the Research Department of the Federal Reserve Bank of Chicago. The increase would have been larger had it not been for a substantial seasonal decline in Commodity Credit Corporation loans during the third quarter.

Short-term loans increased almost 20 percent during the year, as Illinois farmers added 5 percent more feeder cattle to their herds than in 1953 and did so at appreciably higher prices. Real estate loans to Illinois farmers in the Seventh Federal Reserve District were also up, totaling 6 percent more than at the end of 1953.

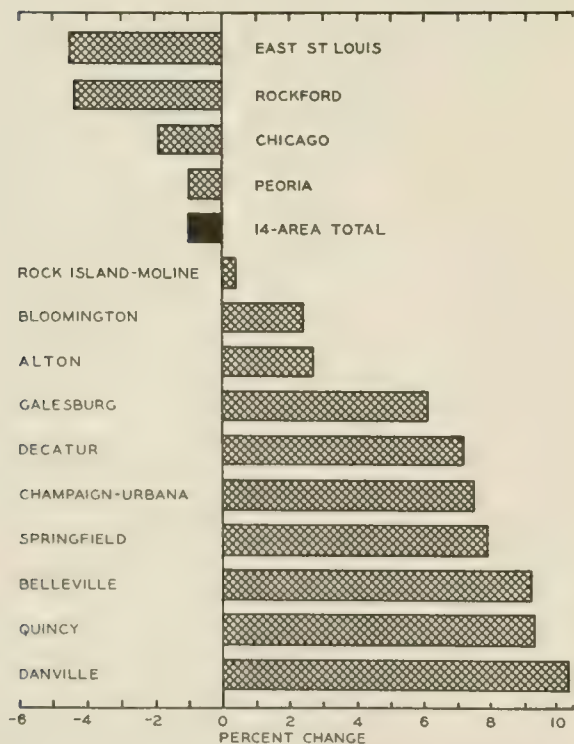
The widespread drouth last year was a major stimulant to agricultural credit. In many cases, the effects were so severe that farmers had to turn to real estate credit to obtain the needed operating capital for 1955. Increasing amounts were also borrowed to finance improvements in water management and utilization.

## Bond Issues Bolster Local Revenues

Throughout the State, city governments have been turning to new bond issues to bring needed improvements to their communities. In Kankakee last month voters approved a bond issue of \$2,225,500 for new school buildings. At the same time additional help was granted the schools as the voters agreed to increase the educational fund tax rate from \$1.04 per \$100 assessed valuation to \$1.40. In Buffalo, a bond issue of \$150,000 was passed for an addition to Tri-City High School. Another new high school will be constructed in Peoria from the proceeds of a \$2-million bond issue approved there. A new elementary school and additions for two others were the object in approval of \$800,000 in bonds in Champaign.

The bond issues for improvements other than schools did not always fare so well. In LaSalle a \$1.5-million issue for the rehabilitation of the sewer system was rejected. Kewanee voters also defeated an issue of \$320,000 for the building of a new city hall.

**ELECTRIC POWER CONSUMPTION**  
Percent change, 1953 to 1954



Source: Local power companies.



# COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

January, 1955

		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS.....</b>		<b>\$17,227<sup>a</sup></b>	<b>1,019,777<sup>a</sup></b>	<b>\$714,792<sup>a</sup></b>		<b>\$13,040<sup>a</sup></b>	<b>\$13,081<sup>a</sup></b>
Percentage Change from.....	Dec., 1954.....	-36.7	+2.8	+26.9	-51	-12.4	-32.3
	Jan., 1954.....	+19.2	+4.2	+7.6	+6	+7.0	+3.8
<b>NORTHERN ILLINOIS</b>							
<b>Chicago.....</b>		<b>\$13,170</b>	<b>782,168</b>	<b>\$529,509</b>		<b>\$11,921</b>	<b>\$11,330</b>
Percentage Change from.....	Dec., 1954.....	-33.0	+2.8	+30.4	-51	-12.7	-31.3
	Jan., 1954.....	+36.4	+2.8	+9.2	+6	+7.1	+3.5
<b>Aurora.....</b>		<b>\$ 248</b>	<b>n.a.</b>	<b>\$ 9,634</b>		<b>\$ 52</b>	<b>\$ 110</b>
Percentage Change from.....	Dec., 1954.....	+281.5		+25.4	-52	-6.8	-31.8
	Jan., 1954.....	+61.0		-1.4	+13	+7.1	+4.0
<b>Elgin.....</b>		<b>\$ 97</b>	<b>n.a.</b>	<b>\$ 7,985</b>		<b>\$ 33</b>	<b>\$ 96</b>
Percentage Change from.....	Dec., 1954.....	-50.8		+28.1	-58	-9.0	-29.3
	Jan., 1954.....	-43.3		+10.6	+12	+18.0	+13.9
<b>Joliet.....</b>		<b>\$ 233</b>	<b>n.a.</b>	<b>\$14,610</b>		<b>\$ 66</b>	<b>\$ 87</b>
Percentage Change from.....	Dec., 1954.....	-63.8		+32.1	-54	-8.4	-48.6
	Jan., 1954.....	-65.9		-9.0	+12	+14.1	-12.1
<b>Kankakee.....</b>		<b>\$ 111</b>	<b>n.a.</b>	<b>\$ 7,019</b>		<b>n.a.</b>	<b>\$ 35</b>
Percentage Change from.....	Dec., 1954.....	-43.9		+27.2	n.a.		-51.1
	Jan., 1954.....	+73.4		+4.9			+5.3
<b>Rock Island-Moline.....</b>		<b>\$ 303</b>	<b>23,237</b>	<b>\$11,852</b>		<b>\$ 82<sup>b</sup></b>	<b>\$ 156</b>
Percentage Change from.....	Dec., 1954.....	-76.7	+7.6	+22.6	n.a.	-7.4	-40.3
	Jan., 1954.....	+52.3	+15.8	+2.1		+7.3	-1.9
<b>Rockford.....</b>		<b>\$ 655</b>	<b>34,401</b>	<b>\$21,260</b>		<b>\$ 142</b>	<b>\$ 210</b>
Percentage Change from.....	Dec., 1954.....	-48.3	-0.5	+23.6	-59 <sup>c</sup>	-9.5	-35.2
	Jan., 1954.....	-53.5	+6.3	+3.1	+7 <sup>c</sup>	+11.7	+11.1
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington.....</b>		<b>\$ 59</b>	<b>7,351</b>	<b>\$ 6,956</b>		<b>\$ 57</b>	<b>\$ 79</b>
Percentage Change from.....	Dec., 1954.....	-27.2	+1.2	+27.8	n.a.	-4.1	-30.4
	Jan., 1954.....	+13.5	+3.9	+6.5		+0.7	-1.7
<b>Champaign-Urbana.....</b>		<b>\$ 148</b>	<b>10,068</b>	<b>\$ 9,319</b>		<b>\$ 55</b>	<b>\$ 84</b>
Percentage Change from.....	Dec., 1954.....	-3.3	+4.5	+26.9	n.a.	-7.1	-48.0
	Jan., 1954.....	+270.0	+5.1	+2.7		+0.9	+8.6
<b>Danville.....</b>		<b>\$ 208</b>	<b>10,391</b>	<b>\$ 7,785</b>		<b>\$ 45</b>	<b>\$ 61</b>
Percentage Change from.....	Dec., 1954.....	+23.8	+7.0	+24.3	-58	-9.8	-39.5
	Jan., 1954.....	+94.4	+8.7	+1.0	-1	+9.5	+16.6
<b>Decatur.....</b>		<b>\$ 469</b>	<b>25,435</b>	<b>\$14,171</b>		<b>\$ 98</b>	<b>\$ 105</b>
Percentage Change from.....	Dec., 1954.....	-20.6	-2.9	+30.1	-50 <sup>c</sup>	-13.9	-40.9
	Jan., 1954.....	+300.9	+17.5	+7.5	+10 <sup>c</sup>	+0.6	+3.6
<b>Galesburg.....</b>		<b>\$ 88</b>	<b>7,380</b>	<b>\$ 5,573</b>		<b>n.a.</b>	<b>\$ 36</b>
Percentage Change from.....	Dec., 1954.....	-27.3	+1.8	+38.3	n.a.		-40.5
	Jan., 1954.....	+576.9	+10.2	+4.5			-0.2
<b>Peoria.....</b>		<b>\$ 591</b>	<b>49,116<sup>c</sup></b>	<b>\$21,532</b>		<b>\$ 185</b>	<b>\$ 237</b>
Percentage Change from.....	Dec., 1954.....	+81.3	+4.0	+23.3	-58 <sup>c</sup>	-11.7	-34.8
	Jan., 1954.....	+135.5	+10.8	+6.1	+8 <sup>c</sup>	+4.8	+21.9
<b>Quincy.....</b>		<b>\$ 86</b>	<b>8,584</b>	<b>\$ 6,506</b>		<b>\$ 38</b>	<b>\$ 61</b>
Percentage Change from.....	Dec., 1954.....	-43.8	+5.5	+25.2	-58	-2.7	-43.5
	Jan., 1954.....	+138.9	+14.0	+4.8	+4	+14.6	-22.9
<b>Springfield.....</b>		<b>\$ 386</b>	<b>31,369<sup>c</sup></b>	<b>\$17,095</b>		<b>\$ 103</b>	<b>\$ 244</b>
Percentage Change from.....	Dec., 1954.....	+50.2	+4.5	+27.7	n.a.	-5.4	-27.6
	Jan., 1954.....	+247.7	+12.3	+6.9		+7.7	+8.6
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis.....</b>		<b>\$ 169</b>	<b>11,910</b>	<b>\$11,789</b>		<b>\$ 127</b>	<b>\$ 77</b>
Percentage Change from.....	Dec., 1954.....	-63.8	-0.5	+25.1	n.a.	-10.7	-42.1
	Jan., 1954.....	-82.5	-7.4	+5.2		+0.9	+4.8
<b>Alton.....</b>		<b>\$ 91</b>	<b>12,026</b>	<b>\$ 6,577</b>		<b>\$ 35</b>	<b>\$ 31</b>
Percentage Change from.....	Dec., 1954.....	-93.0	+1.3	+32.5	n.a.	-9.6	-49.8
	Jan., 1954.....	+15.2	+3.3	-0.8		-1.8	+14.7
<b>Belleville.....</b>		<b>\$ 115</b>	<b>6,340</b>	<b>\$ 5,618</b>		<b>n.a.</b>	<b>\$ 42</b>
Percentage Change from.....	Dec., 1954.....	-59.5	+6.6	+24.4	n.a.		-42.1
	Jan., 1954.....	-66.1	-0.7	+6.2			+5.8

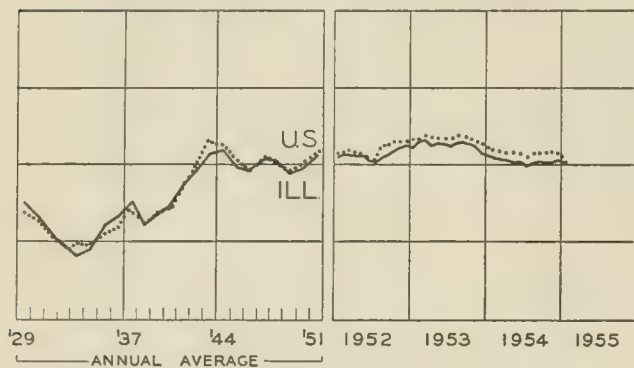
<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.

Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for December, 1954, the most recent available. Comparisons relate to November, 1954, and December, 1953. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

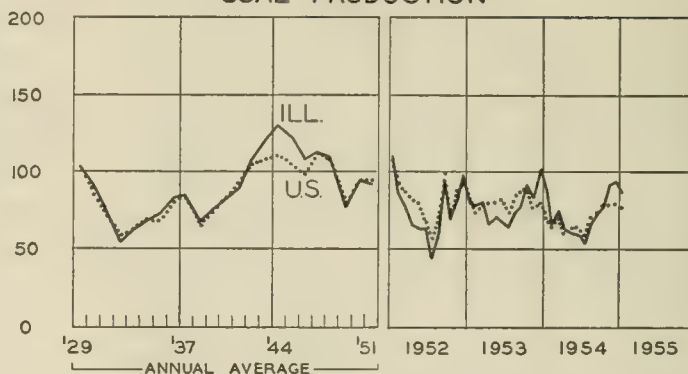
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

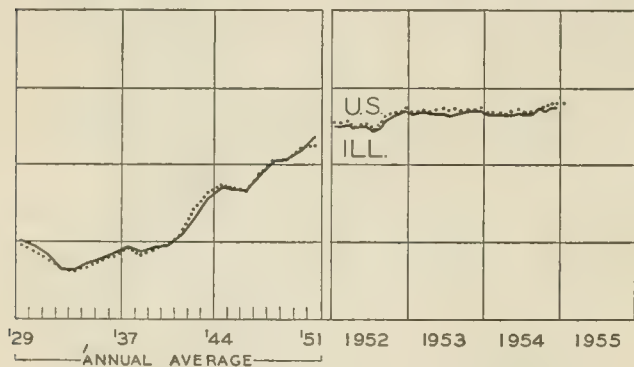
EMPLOYMENT - MANUFACTURING



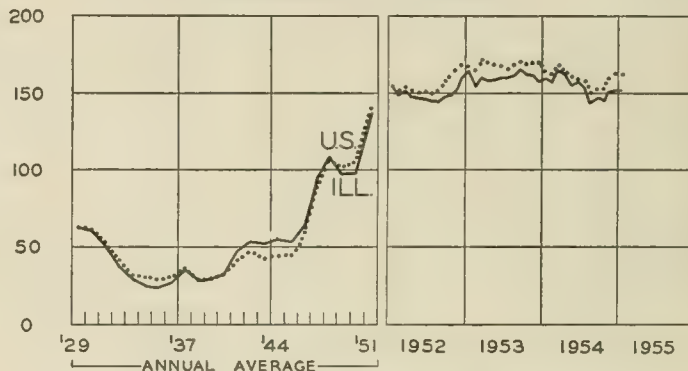
COAL PRODUCTION



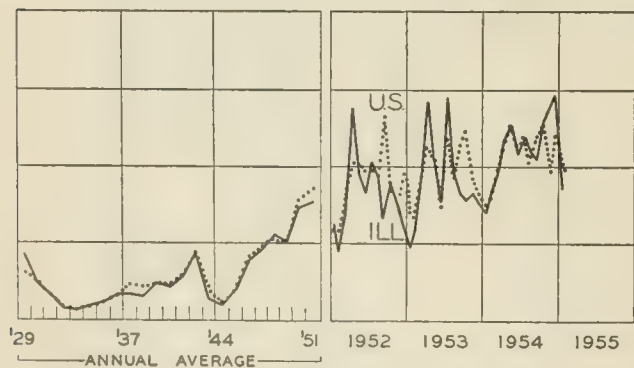
AVG. WKLY. EARNINGS — MANUFACTURING



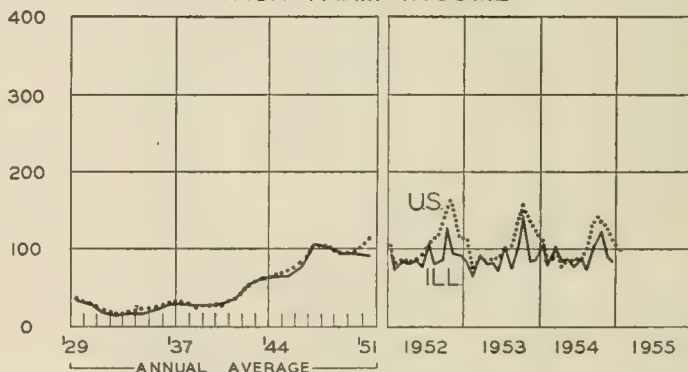
BUSINESS LOANS



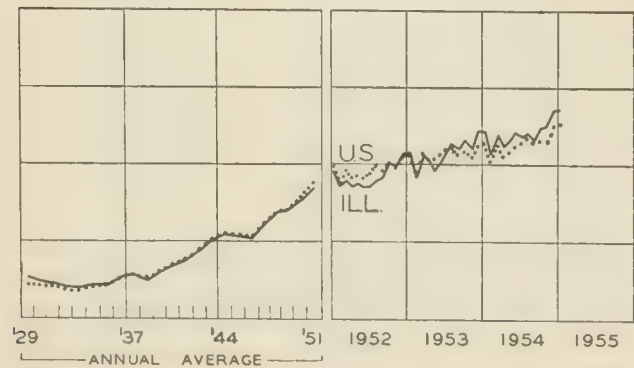
CONSTRUCTION CONTRACTS AWARDED



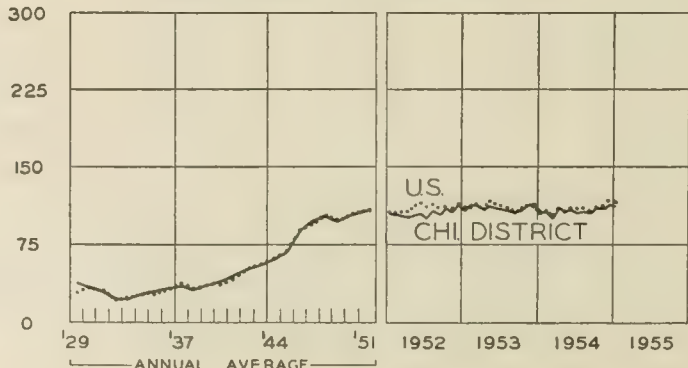
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .  
BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME XII

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NUMBER 4

## HIGHLIGHTS OF BUSINESS IN MARCH

Signs of a spring recovery in business activity multiplied during March. Department store sales during the month exceeded the levels of last March by 5 to 6 percent even after adjustment for the earlier date of Easter this year. Farm work picked up sharply with warmer weather, as did construction activity. Improvement was also apparent in the industrial scene, with capital expenditures reportedly turning upward, freight carloadings well above last year's levels, and industrial production rising to the highest level in two years.

### Employment Picture Brightens

In line with the improvement in business activity, the employment situation brightened in March. Sharp pickups in factories, in the construction industry, and on the farms raised total employment by half a million to 60.5 million. At the same time, unemployment declined seasonally to 3.2 million, as compared with 3.7 million last March.

The position of factory workers in March improved considerably. Employment rose in almost every industry and the average hourly earnings of factory workers was higher than ever before—\$1.85 per hour. As a result of this increase and a rise in weekly hours worked, weekly earnings of factory workers in March reached a new peak of \$75.30.

If a recent survey of the United States Bureau of Employment Security proves correct, a further improvement in manufacturing employment is in prospect. This survey indicated that employers in 90 percent of the nation's industrial areas expected to increase their labor force between mid-March and mid-May.

### The Construction Boom

The strength of the construction boom continued to surprise the experts. Construction put in place in March reached a new high for the month at \$2.9 billion. This was 14 percent higher than construction expenditures made last March and up 10 percent seasonally from this February's level. Public building outlays were slightly less than last March but nearly all categories of private construction were up sharply, particularly residential and commercial building.

With the construction boom reaching new heights every month so far this year, it is no surprise that expenditures for new building in the first quarter of this year attained a new peak of \$8.4 billion. This is 13 percent more than was spent in the first three months of

1954, and after seasonal adjustment corresponds to an unprecedented annual rate of \$41 billion. Strongly supporting this upward movement has been the 39-percent rise in outlays for new private homes and the 34-percent increase in expenditures for stores and garages.

### Capital Expenditure Outlook

If businessmen adhere to plans stated during February and March, the gradual downturn in capital expenditures in progress since the last of 1953 should be about over, and expenditures for new plant and equipment in 1955 should be slightly higher than last year. Higher sales are also expected this year, particularly for trade firms and public utilities.

Public utilities and commercial firms are most optimistic in their capital outlay plans, expecting their expenditures this year to rise 4 and 7 percent respectively. Capital outlays of railroads and of mining companies may drop the most, by 11 percent and 8 percent respectively.

Investment expenditures of manufacturers are expected to decline 3 percent on the average, but there is considerable variation by industry. Higher outlays are planned by iron and steel, nonferrous metals, machinery, and petroleum firms, whereas the automobile, food and beverage, and textile industries intend to invest less this year than last. In addition, the larger firms generally anticipate no decline at all.

### Installment Debt Rises

Spurred by booming automobile sales, installment credit outstanding of consumers rose contraseasonally in February to a total of \$22.5 billion by the beginning of March. Installment credit outstanding on automobile purchases rose \$182 million during February to \$10.6 billion, whereas last February the total declined by nearly \$150 million. Other types of installment credit outstanding declined during the month so that at the beginning of March credit for automobile purchases accounted for 48 percent of all installment credit.

Noninstallment credit of consumers declined seasonally in February, reducing the total of such credit outstanding at the beginning of March to \$7 billion. It also more than offset the rise in automobile installment credit and caused total consumer credit outstanding to decline by \$242 million to \$29.5 billion. This total, however, still exceeded the corresponding figure in 1954 by nearly \$1.4 billion.

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## Auto Production Must Drop

As the United Auto Workers and the major companies come together for negotiation of a new contract, production in the industry is running at an all-time high. Passenger car output in the first quarter exceeded two million, equal to an annual rate of about 8.5 million units, and schedules call for the continuation of this high rate in the second quarter. Only in the post-Korea upsurge of late 1950 had this pace ever been matched. Neither the companies nor the union expect that output can be maintained at anything like this rate.

The current situation and expectations for the future intensify differences over a key issue in the bargaining — the guaranteed annual wage. The companies know they cannot guarantee work for the present labor force. The workers feel keenly the need for protection against layoffs caused by reductions in output. The special article on page 8 discusses some aspects of this issue.

## The Status of Dealers' Stocks

One reason the recent high rate of production cannot continue is that a substantial portion of it has been going into inventory. During the first quarter, additions to dealers' stocks were at an annual rate of more than one million cars. A part of the explanation for this rapid accumulation goes back to the situation at the beginning of the year. At that time stocks were definitely too low. Demand in the final months of 1954 had been underestimated and stocks were drawn down correspondingly. A rapid rebuilding of stocks would therefore have been planned entirely without regard to the need for negotiating new union contracts. Everyone in the industry moved to minimize the loss of sales that occurs when the desired model or color cannot be delivered to the buyer who is in a hurry.

By the end of the first quarter, stocks were generally up to the level needed to carry out peak sales programs. Ford alone was reported to hold inadequate stocks at the end of March, and Ford cars were being sold at a rate that would apparently make it impossible for the company to rebuild normal stocks by the end of May, the terminal date for the union contract. This is one of the reasons why, according to the grapevine, the union is more likely to strike against Ford than General Motors if the negotiations fail.

It is clear that the rapid accumulation of new car inventories cannot go on for long. By some time in the

summer, production will have to be brought into line with sales. A strike would, of course, be a quick way of reducing inventories. Some of the independents may be accumulating stocks in the hope of taking over some of the market of any company shut down by a strike. If so, they would seem to be playing with fire. For if a settlement is reached, they would then be faced with a serious problem of inventory liquidation in a highly competitive market; and the enforced unemployment that resulted would aggravate the desire of their workers for employment or wage guarantees.

The industry now expects production in 1955 to total about 7 million units, of which perhaps a half million will go into dealers' stocks. If this estimate proves correct, the annual rate of output will be adjusted down in the second half of the year to about 5.5 million units, as compared with the present 8.5 million. About a third of this cutback would be necessary to eliminate or reverse the accumulation of stocks, which will be fully adequate, if not actually excessive, by midyear. The remainder of the adjustment would be largely seasonal in character.

## The Market for New Cars

Sales as well as production have been running at a very high rate in the early months of 1955. If sales were to continue high in 1956, the letdown in the latter half of 1955 would be of little more than seasonal significance. There are reasons to believe, however, that early 1955 sales have been boosted by a number of temporary factors, so that the level of sales will be lower next year.

There are some indications that the possibility of a strike has boosted sales; salesmen have definitely been using this as an argument in urging consumers to buy now. Other factors have also been temporarily favorable. Income has been moving up in the strongest phase of the recovery movement. Month by month new highs in personal income are being recorded, and the upsurge in activity seems clearly in process of lifting 1955 above previous peaks. Moreover, the stock market has been advancing rapidly, and there is every indication that a rising market contributes to auto sales — whether by providing realized capital gains to finance such sales or by creating a feeling of affluence which makes for easier spending of other funds. Only in 1929 was a greater stimulus obtained from this source. Another important stimulus for 1955 sales was the appearance of striking new models throughout the industry. The sales "appeal" of new models has rarely, if ever, been greater.

Next year the effects of all of these factors will be lost. The upward movement of income is itself based in part on temporary factors and seems unlikely to continue in 1956. The stock market will tend to turn down with the economy, and even if the average level of stock prices is as high next year as this, a substantial loss of auto sales will result. Furthermore, there will be no new model stimulus; none of the companies appears to be planning major model changes until 1957.

One other factor will be operating to depress sales, and that is increasing market saturation. A rapid increase in the number of cars on the road means that, other things being equal, sales in subsequent years will decrease. The accumulated wartime backlog and other factors have kept the market strong through a whole series of years in which the number of cars at the service of consumers was rising rapidly. When the effects of such factors have been finally dissipated, the depressing effects of market saturation will be clearly apparent.

(Continued on page 6)



## **ACCIDENT AND HEALTH INSURANCE**

Last year nearly 10 million Americans were injured in disabling accidents — 350,000 permanently. For every accident there were six illnesses, and more than 43,000 persons were hospitalized an average of 12 days. On a per capita basis, every man, woman, and child in the United States was incapacitated, on the average, at least 10 days during the year as a result of illness or injury.

Financing the cost of accidents and sickness has long been a major problem for the average family. When faced with unexpected doctor bills and hospital expenses, many a well-run home has been plunged into financial ruin. Today, such catastrophes may be averted by insurance, and loss of income as well as doctor bills may be provided for in advance by regular savings in the form of insurance premiums.

### **A Century of Accident Insurance**

The earliest accident insurance policies in the United States were written about 1850 but were limited to travel accidents on a specific trip by railroad or steamboat. These policies paid a \$200 benefit for injury suffered in an accident if the policyholder was disabled for ten days or more and increased the benefit to \$400 providing he was totally disabled for two months. These policies usually remained in force for only 24 hours, and commanded a premium of 15 cents.

In 1863, companies began to issue policies protecting against accidents in general. During the 1890's the foundation was laid for health insurance as it exists today when protection against a limited list of illnesses was offered, providing weekly cash benefits to replace wages or salary lost for not more than 26 weeks.

Various types of accident insurance policies are currently available and premiums range from 25 cents to \$10 a month. Many are "limited" policies which are inexpensive and offer benefits only in case of travel accident or other specified type of accident. The airlines now offer a trip insurance policy which provides \$6,250 for only 25 cents and which is available up to \$62,500. Other kinds of policies provide benefits for loss of time, death, loss of sight or limbs, and medical costs.

### **Types of Health Insurance**

The most popular form of health insurance is that of hospitalization, with an estimated 100 million people throughout the United States protected with some type of coverage. These policies pay all or part of one's hospital expenses, depending upon the amount of insurance purchased. A policy could provide benefits ranging from \$4 to \$10 a day for room and board with a maximum time limit of 60 to 100 days of hospitalization per year and up to \$200 for other charges.

Surgical expense insurance provides for payment of all or part of the doctors' fees for surgical procedures. Hospital and surgical expense benefits are usually provided by the same policy.

General medical insurance produces funds to help pay for doctors' calls — in-hospital, home, and office. This

type of insurance will also pay for all or part of the bills for special laboratory, X-ray, and other examinations.

Income disability protection, often referred to as income replacement or loss-of-income insurance, pays cash benefits on a weekly or monthly basis if one is unable to work because of sickness or an accident.

Major medical or catastrophe insurance provides protection against medical expenses which are not adequately covered by other hospital and surgical plans. These policies usually cover all expenses in excess of a deductible amount and up to a maximum limit, which may vary from \$2,000 to \$10,000. The deductible amount may range from \$50 to \$500 and in principle is applied similarly to that of automobile collision insurance.

### **Illinois Companies**

Illinois is one of the leading states in the number of companies licensed to sell accident and health insurance and in the number of people protected by such policies. Approximately seven million persons in Illinois carry hospitalization insurance, six million surgical, and three million medical expense coverage. In addition, personal accident, loss-of-income, and major medical insurance are rapidly increasing in popularity.

The Blue Cross Commission, with headquarters in Chicago, formulates the policy for 87 Blue Cross Plans throughout the United States and Canada. By 1954 these organizations protected more than 44 million subscribers as compared with a half million in 1938.

The Blue Shield Medical and Surgical plans are similar in organization to Blue Cross. Operating 98 plans throughout the country, they currently have a membership of over 23 million.

The Federal Life Insurance Company of Chicago was founded in 1899 and entered the accident and health field in 1911. It currently employs approximately 400 agents throughout the country, 63 of whom are in Illinois.

The Washington National Insurance Company of Evanston started in November, 1911, with its first headquarters in Springfield. It has grown steadily, selling both life insurance and accident and health insurance until today it has 4,000 representatives in 47 states and Canada.

The Illinois Mutual Casualty Company of Peoria began writing accident and health insurance in 1910 while located at Danville under the name of the Illinois Benefit Association. It is licensed in 11 states and employs 1,200 agents in addition to approximately 100 employees who work out of the home office.

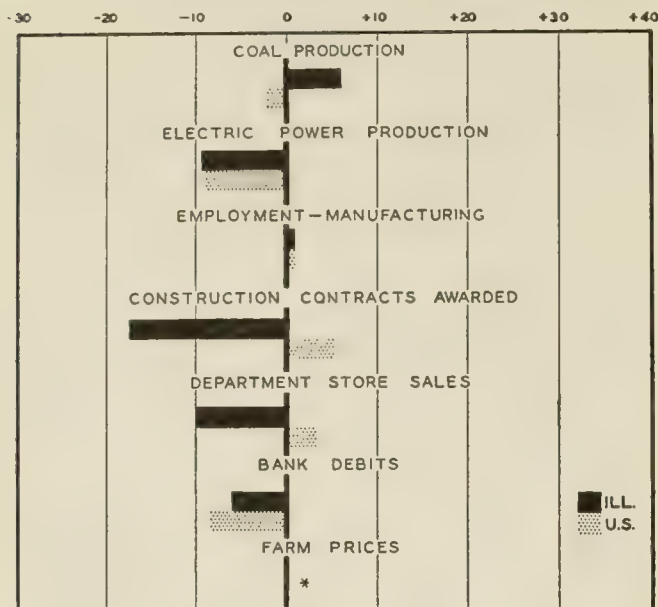
Other companies offering accident and health insurance with headquarters in Illinois are: North American Life, North American Accident, Continental Casualty, and All American Casualty of Chicago; Central Standard Life of Monmouth and Chicago; and State Farm Life of Bloomington. These and other companies offering the same kind of protection help the American people distribute the costs and losses resulting from accident or illness.

# **KNOW YOUR STATE**

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes January, 1955, to February, 1955



\* No change from previous month.

## ILLINOIS BUSINESS INDEXES

Item	February 1955 (1947-49 = 100)	Percentage Change from	
		Jan. 1955	Feb. 1954
Electric power <sup>1</sup> .....	186.1	- 9.3	+15.7
Coal production <sup>2</sup> .....	93.1	+ 6.2	+42.9
Employment—manufacturing <sup>3</sup> .....	102.3	+ 0.8	- 1.6
Weekly earnings—manufacturing <sup>3</sup> .....	138.3 <sup>a</sup>	+ 0.4	+ 4.2
Dept. store sales in Chicago <sup>4</sup> .....	109.0 <sup>b</sup>	0.0	+ 0.9
Consumer prices in Chicago <sup>5</sup> .....	117.1	+ 0.1	+ 0.3
Construction contracts awarded <sup>6</sup> .....	142.3	-17.3	-13.9
Bank debits <sup>7</sup> .....	140.1	- 6.1	+ 6.6
Farm prices <sup>8</sup> .....	85.0 <sup>c</sup>	0.0	-12.4
Life insurance sales (ordinary) <sup>9</sup> .....	168.2	- 3.2	+ 7.0
Petroleum production <sup>10</sup> .....	106.9	- 7.9	+17.1

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.

<sup>a</sup> January data; comparisons relate to December, 1954, and January, 1954. <sup>b</sup> Seasonally adjusted. <sup>c</sup> Revised series.

## UNITED STATES MONTHLY INDEXES

Item	February 1955	Percentage Change from	
		Jan. 1955	Feb. 1954
	Annual rate in billion \$		
Personal income <sup>1</sup> .....	292.4 <sup>a</sup>	+ 0.3	+ 2.6
Manufacturing <sup>1</sup> .....			
Sales.....	302.4 <sup>a</sup>	+ 1.2	+ 6.8
Inventories.....	43.7 <sup>a, b</sup>	+ 0.2	- 5.2
New construction activity <sup>1</sup> .....			
Private residential.....	12.4	- 6.9	+36.4
Private nonresidential.....	11.4	+ 0.2	+ 8.3
Total public.....	7.8	-10.5	- 8.3
Foreign trade <sup>1</sup> .....			
Merchandise exports.....	14.0 <sup>c</sup>	-11.0	+ 7.0
Merchandise imports.....	10.4 <sup>c</sup>	- 7.6	+ 4.5
Excess of exports.....	3.6 <sup>c</sup>	-19.5	+15.0
Consumer credit outstanding <sup>2</sup> .....			
Total credit.....	29.5 <sup>b</sup>	- 0.8	+ 4.9
Installment credit.....	22.5 <sup>b</sup>	+ 0.3	+ 4.3
Business loans <sup>2</sup> .....	22.2 <sup>b</sup>	+ 0.8	- 0.9
Cash farm income <sup>3</sup> .....	22.8	-25.1	- 5.3
	Indexes (1947-49 =100)		
Industrial production <sup>2</sup> .....			
Combined index.....	133 <sup>a</sup>	+ 1.5	+ 6.4
Durable manufactures.....	147 <sup>a</sup>	+ 1.4	+ 5.8
Nondurable manufactures.....	121 <sup>a</sup>	+ 0.8	+ 6.1
Minerals.....	121 <sup>a</sup>	+ 2.5	+ 7.1
Manufacturing employment <sup>4</sup> .....			
Production workers.....	103 <sup>a</sup>	+ 0.5	- 2.0
Factory worker earnings <sup>4</sup> .....			
Average hours worked.....	102	+ 0.7	+ 2.3
Average hourly earnings.....	139	+ 0.5	+ 2.8
Average weekly earnings.....	141	+ 1.3	+ 5.1
Construction contracts awarded <sup>6</sup> .....	207	+ 5.1	+29.5
Department store sales <sup>2</sup> .....	112 <sup>a</sup>	- 5.1	+ 2.8
Consumers' price index <sup>4</sup> .....	114	0.0	- 0.6
Wholesale prices <sup>4</sup> .....			
All commodities.....	110	+ 0.3	- 0.1
Farm products.....	93	+ 0.6	- 4.7
Foods.....	103	- 0.7	- 1.6
Other.....	116	+ 0.3	+ 1.0
Farm prices <sup>3</sup> .....			
Received by farmers.....	90	0.0	- 5.3
Paid by farmers.....	113	0.0	0.0
Parity ratio.....	87 <sup>d</sup>	+ 1.2	- 4.4

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.

<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for January, 1955; comparisons relate to December, 1954, and January, 1954.

<sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1955					1954
	Mar. 19	Mar. 12	Mar. 5	Feb. 26	Feb. 19	Mar. 20
Production:						
Bituminous coal (daily avg.).....thous. of short tons..	1,342	1,397	1,297	1,467	1,489	1,151
Electric power by utilities.....mil. of kw-hr.....	9,814	9,726	9,727	9,725	9,912	8,572
Motor vehicles (Wards).....number in thous.....	202	193	184	186	188	145
Petroleum (daily avg.).....thous. bbl.....	6,858	6,845	6,806	6,789	6,767	6,461
Steel.....1947-49 = 100.....	132	130	129	127	125	94
Freight carloadings.....thous. of cars.....	656	667	659	635	655	610
Department store sales.....1947-49 = 100.....	108	102	98	93	90	95
Commodity prices, wholesale:						
All commodities.....1947-49 = 100.....	110.0	110.1	110.1	110.3	110.3	110.5 <sup>a</sup>
Other than farm products and foods.....1947-49 = 100.....	115.5	115.5	115.3	115.4	115.4	114.2 <sup>a</sup>
22 commodities.....1947-49 = 100.....	88.9	88.6	89.9	90.9	91.5	89.7
Finance:						
Business loans.....mil. of dol.....	22,694	22,375	22,531	22,236	22,251	22,939
Failures, industrial and commercial.....number.....	226	257	222	178	205	243

Source: Survey of Current Business, Weekly Supplements.

<sup>a</sup> Monthly index for March, 1954.



# RECENT ECONOMIC CHANGES

## Housing Starts Continue Upward

Construction activity in the first quarter of 1955 was at an all-time high. Housing starts amounted to 295,000 new units, nearly a fourth above the first quarter of 1954 and 6 percent above the previous peak reached in the opening three months of 1950.

The number of nonfarm starts increased seasonally by 27,000 in March to 117,000 new units. The March figure was still a fifth higher than in March, 1954, and was only slightly below the record high for the month of 117,300 attained in 1950. On a seasonally adjusted basis, the March total amounted to an annual rate of 1.4 million units.

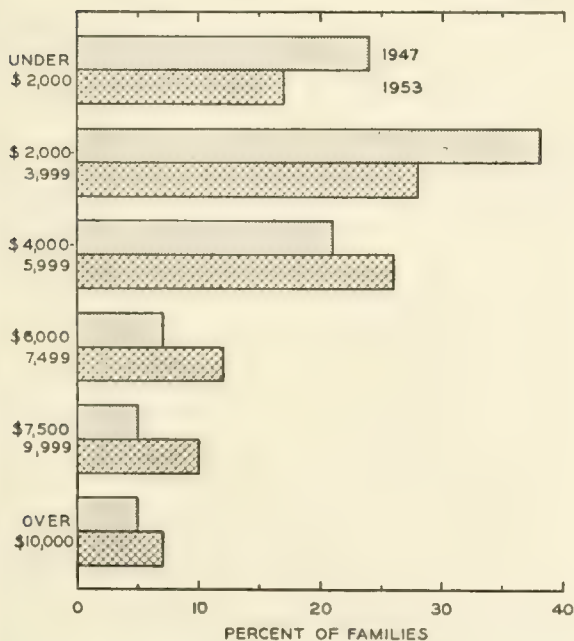
The near-record level of new housing starts in recent months partly reflected last year's housing bill providing for lower down payments and longer pay-off periods for houses mortgaged with government insurance. In the first two months of 1955, more than 52 percent of new private starts were government underwritten, compared with 40 percent of the new starts in the same months of 1954.

## Family Incomes

The average family in 1953 earned \$5,370 before income taxes. More than 55 percent of American families (which includes unattached individuals) had incomes over \$4,000, and 40 percent earned more than \$5,000. Only 7 percent earned more than \$10,000, but this 7 percent accounted for 25 percent of all the income received in that year.

Substantial advances have occurred in income during most postwar years. Between 1947 and 1953 aggregate income was up about 50 percent. Average income per family was up less, 30 percent, since there were about 6 million more families to share the total in 1953 than in 1947.

DISTRIBUTION OF FAMILY INCOME



Source: U. S. Department of Commerce.

A substantial part of the advance has also been absorbed in higher prices, so that real income increased only a fourth over the 1947-53 period. Allowing for higher prices and the increase in the number of families since 1947, the average family could buy about 10 percent more goods and services in 1953 than in the earlier year.

Along with the general rise in income there has been an upward shift in the distribution of family income (see chart). In 1947, 24 percent of all families were in the \$1,000-or-less bracket, compared with 17 percent in 1953. A smaller percentage of spending units were in the \$2,000-\$4,000 income group, while an increased proportion were in the upper income classifications, with 7 percent currently in the over-\$10,000 group, compared with 5 percent in 1947.

## Employment Up Seasonally

Employment rose seasonally in March, as factory activity continued to expand and farmers began preparations for spring planting. Total employment increased by 439,000 to 60.5 million during the month. The advance centered in agricultural work since the rise in factory jobs was offset by declines in other nonfarm sectors. According to the Census Bureau, the slight decline that occurred in nonfarm employment in March was due to a shift of workers from nonfarm to farm jobs.

Unemployment was off during March by about 200,000 to 3.2 million. This was nearly 450,000 below March of last year. Census data in thousands of workers are as follows:

	March 1955	February 1955	March 1954
Civilian labor force.....	63,653	63,321	63,824
Employment.....	60,477	59,938	60,100
Agricultural.....	5,692	5,084	5,875
Nonagricultural.....	54,785	54,854	54,225
Unemployment.....	3,176	3,383	3,724

## Survey of Consumer Finances

Consumers were fairly optimistic about economic prospects early in 1955, according to the Federal Reserve Board's tenth annual Survey of Consumer Finances. Consumers considered their financial position early this year to be somewhat more favorable than a year ago, and about the same as in early 1953. A much larger percentage of consumer spending units anticipated higher incomes in 1955 than did last year and, at the same time, fewer expected declines.

Reflecting this optimism about incomes, the survey indicated planned purchases of important durable goods to be more numerous than in 1954. About as many consumers anticipated buying new cars as a year ago, but the average expenditure per car was expected to be greater. More consumers plan to purchase furniture and appliances than in early 1954, though the number was smaller than in early 1953. About a third of this group anticipated outlays of over \$500. House buying plans were more frequent than in either of the two previous years, with most of the increase from last year accounted for by veterans.

## Manufacturers' Sales Up

Manufacturing activity continued its gradual expansion during February. Manufacturers' sales rose by \$300 million during the month to \$25.2 billion, after seasonal

adjustment. This was 7 percent above the depressed level of February, 1954. Gains, though moderate, were fairly widespread throughout industry, with the major exception being a decline in sales by the transportation equipment industry from the high rates of the previous month. Sales of durables as a group were up \$1.2 billion between February, 1954, and February, 1955, to \$12.1 billion. Shipments of nondurables were a half billion dollars higher than a year ago, with most of the increase in petroleum and chemicals.

New orders rose almost \$1 billion in February. The bulk of this advance was in durables, primarily in new business for metal companies. At \$12.7 billion, new contracts for the heavy goods industries in February were \$3.3 billion above 1954. Order backlogs rose \$600 million to \$45.7 billion, but were \$6 billion below February of last year.

The book value of manufacturers' inventories amounted to \$43.7 billion in February, \$2.5 billion below last year, though unchanged from January.

### Changing Consumption Habits

Substantial shifts have occurred in consumer eating habits over the past forty years. Per capita food consumption of pork and beef is about the same as before World War I, but average consumption of citrus fruits and vegetables is greater whereas that of wheat products, non-citrus fruits, and potatoes is lower, according to data compiled by the *Journal of Commerce*. In the five-year period 1950-54, annual per capita consumption of fresh, canned, and frozen vegetables amounted to 191 pounds compared with 168 pounds in the years 1935-39 and something on the order of 150 pounds in 1910-14. Americans are also bigger coffee drinkers now than formerly and they are more apt to be eating margarine with their coffeecake instead of butter. People are eating less pota-

toes; consumption currently amounts to about 111 pounds per person compared with 197 pounds forty years ago.

Important shifts have occurred in consumption patterns in other sectors of the economy. In textiles there has been little change in cotton or wool consumption per person between 1910-14 and currently, but silk has virtually dropped out of the picture. Per capita use of synthetic fibers amounted to less than a pound in the 1925-29 period, whereas average use between 1950-54 amounted to 9.5 pounds, 3 times as much as wool and nearly a third as much as cotton.

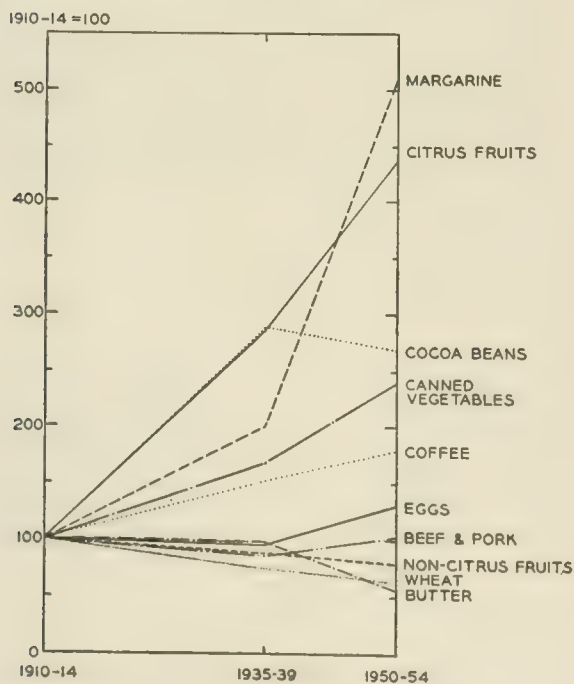
The automobile has been an important factor in the changing use of many commodities over the years. Annual rubber consumption has moved from 1.2 pounds per person before World War I to about 19 pounds in 1950-54, with use of synthetic rubber gaining at the expense of natural rubber in the post-World War II period. Motor fuels are up from 10 gallons per capita in 1910-14 to 308 in 1950-54. Steel consumption has risen from 437 pounds per person to 912 pounds over the same period.

### Machine Tool Ordering Brisk

In recent months machine tool builders have experienced the first sustained upward movement in orders in two years. New orders in February amounted to about \$62 million, up \$2 million from January to the highest level in 17 months. The volume of new business advanced sharply in December of last year and for the three months December to February was 30 percent above the average monthly volume for 1954 as a whole.

Shipments remained relatively low in February at \$49.8 million. This was slightly higher than January, which represented a three-year low. As a result of the slowdown in shipments and stepped-up ordering, the industry's backlog increased to something over 4 months work. This compares with a post-Korean low of 3.1 months last November.

### PER CAPITA FOOD CONSUMPTION



Source: *Journal of Commerce*, March 15, 1955.

### Personal Income at New High

Personal income advanced to a new high in February. The total was up to a seasonally adjusted annual rate of \$292.4 billion, a billion dollars above the January level and \$7.4 billion above February, 1954. The rise in February this year reflected a \$600-million increase in wage and salary disbursements and a \$400-million increase in proprietors' and rental income.

Factory wage and salary disbursements were up by a billion dollars to an annual rate of \$68.5 billion in February. The advance reflected increased employment and a longer workweek. As in other recent months, most of the increase centered in durable goods industries, the sector in which declines were greatest last year. Partially offsetting the February advance in manufacturing were declines in construction and farm payrolls.

### Auto Production Must Drop

(Continued from page 2)

Since all these factors are important in the auto market, the decline in sales next year may be larger than any that has yet occurred in the postwar period. Hence, the cutbacks in the latter half of 1955, which must occur for seasonal and inventory reasons alone, may be no more than an intermediate point on the way down.

VLB



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Local Development Aid

A new publication of the United States Department of Commerce, the *Area Development Bulletin*, is designed as an aid to the many state and local organizations now working on industrial development for their specific area. The main functions of the bimonthly report are to call attention to Federal government programs and information of possible use, to write up the methods and experience of groups who have been successful in area projects, and to publish pertinent articles on area development.

The bulletin is available from the Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C. Single copies are 10 cents, the annual subscription rate 50 cents.

### Ruler for Robert's Rules

For business meetings or club meetings, for work or pleasure, a new device is on the market to enable all meetings to be conducted with correct parliamentary procedure. Based on *Robert's Rules of Order Revised*, it is a slide rule which will provide quick answers to eight basic questions on 36 possible motions. The ruler is made by Pan-L-View, Room 235, 708 Church Avenue, Evanston, Illinois, and retails at \$3.00.

### Industrial Pay Periods

An increasing proportion of workers are being paid at weekly intervals, 75 percent in 1953 as compared with only 66 percent in 1938, according to recent data of the United States Bureau of Labor Statistics. Factors behind this shift include changes in the industrial composition of the economy, relocation of plants, union demands (which are generally for a weekly period), and the use of better payroll-keeping equipment.

The pay period varies significantly by industry. In contract construction 97 percent of the workers were paid on a weekly basis in 1953. The proportion was 81 percent for manufacturing and about 75 percent for trade, transportation, and public utilities. In mining and in finance, insurance, and real estate more workers were paid semi-monthly than any other way.

In addition to differences in industry practices, the pay period is also influenced by state legislation which sets the maximum pay period at half a month or less in 42 states. In New England and New York the maximum is set at one week for most workers.

### Yours for a Pleasant Summer

A variety of new products will soon be on the market to entice the American public into fuller enjoyment of the coming warm weather. One of interest to every mosquito-bitten lover of the outdoors is the all-aluminum screen house put out by the Grand Sheet Metal Products Company, Merchandise Mart, Chicago 54, Illinois. The house is portable and comes in three models. It has 1-inch box-type aluminum columns, mesh screening, and a vinyl-coated canvas top.

For the more serious side of the summer season is the "first self-contained electric starter for home power lawnmowers," operating on the principle of modern automobile starters. More than 400 starts can be produced by

the 6-volt battery according to the maker, the Jacobsen Manufacturing Company of Racine, Wisconsin.

The "Backyard Bubbler" is an asset for work or play. Its green plastic cup and metal tubing and fittings are made to transform any outdoor faucet or hose into a convenient drinking fountain. It is marketed by Breck's of Boston, 100 Breck Building, Boston 10, Massachusetts.

### Trends in Hotel Sales

In line with business throughout the nation, hotel sales in 1954 were slightly below the record level in 1953. However, sales in 1954 were more than twice as high as those of 1929 and four times those at the depths of the depression in 1933.

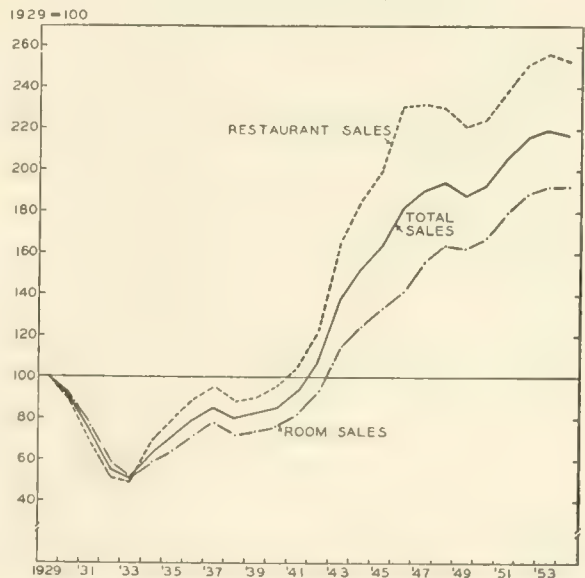
Although room sales have grown rapidly, the chart below shows that hotel sales of food and beverages have increased even more. This phenomenon is largely attributable to the war years when rationing encouraged "eating out," a habit that seems to have retained its popularity. Restaurant sales of hotels in 1954 were more than 2½ times as large as in 1929, whereas room sales did not quite double in the same period.

Until 1946 the sales bulge was almost entirely the result of increasing sales volume. Rent and food controls served to keep prices fairly level during the war, whereas occupancy rates, the average proportion of available rooms actually used, moved up sharply to a high of 93 percent in 1946.

Since 1946, however, occupancy rates have fallen steadily while rental rates have been catching up with other price rises in the economy. In 1954 the average room rate was 78 percent higher than in 1929, and food and beverage prices had also increased. These price rises account for much of the sales gain in recent years.

The rise in total sales by hotels has not been spread evenly throughout the nation. Chicago has shown the greatest increase, almost 250 percent, since 1929. Cleveland, on the other hand, has increased only half as much as Chicago.

HOTEL BUSINESS, 1929-54



Source: *The Horwath Hotel Accountant*, February, 1955.

# THE GUARANTEED ANNUAL WAGE

W. ELLISON CHALMERS, Professor of Economics  
Institute of Labor and Industrial Relations

While the whole nation watches, the UAW-CIO negotiates with General Motors and Ford. A strike against one or the other is, at this writing, a real possibility. If that did occur and was prolonged it would not be disastrous to the national economy, but it certainly would have far-reaching effects. It would cause widespread suffering for many workers and seriously threaten the profit and market position of the firm involved.

## The Issue

Even more important than the strike question are the terms of agreement — whenever achieved. For among the issues in the negotiations is the guaranteed annual wage (GAW) or guaranteed annual employment as the union prefers to call it. It proposes that most auto workers be guaranteed either employment or wages for 52 weeks.

In the past, at least, the auto industry negotiations have been significant pattern-setters for many other union-management agreements. From earlier automobile negotiations have come the five-year contract, the annual productivity increase, the cost of living adjustment, and other new elements in collective bargaining.

What is new about the present negotiations is not the idea of a guaranteed wage but its possible application to a basic industry and perhaps its extension to many others. It has already been adopted, in one form or another, in a number of small plants. Some quarter of a million workers are now covered by about 190 agreements. In addition, a number of large unions have urged its desirability for a dozen years. But to date, it has not been adopted in any large center of economic power nor by any of the major pattern-setters.

Nor is the concern for worker security a new idea. Workers and their unions have long been pressing for protection against the uninhibited pressures of competitive markets and the judgments of individual employers. In consequence many employers have affirmed an obligation to regularize employment as much as possible. Both collective agreements and governmental action have made many steps in the same direction. Private bargains have emphasized variations in weekly hours to spread work, the establishment of seniority rights to differentially allocate the worker cost of unemployment, dismissal pay, and old age pensions. Governmental plans have included efforts to retain a high level of employment in the economy as a whole, unemployment compensation to reduce the worker costs of unemployment, old age pensions to reduce the cost of unemployment for the aged, compensation for accidents, and an employment service to reduce the amount of frictional unemployment. These and other measures emphasize the common determination of workers and their unions, employers, and government to superimpose some degree of economic security upon the functioning of the free market economy.

Viewed from the worker's perspective, the GAW is an additional device to supplement a variety of other approaches to a commonly recognized problem. This is the UAW's primary demand. It insists that it will be unwilling to withdraw its GAW demand for other concessions.

## The UAW's Position

What is the proposal? Space does not permit more than a brief summary of the plan now proposed by the UAW-CIO. Each worker who had acquired seniority (currently, after three months of employment) would be guaranteed work, or payment in lieu thereof. For those with less than two years of seniority, the guarantee would be graduated, but for the others, the guarantee of payment would extend for 52 weeks. The amount of such payments would be enough to "maintain the standard of living of the worker." This is interpreted to mean that the employer would pay full wages minus the amount received by the worker in unemployment compensation and the amount received for supplementary work elsewhere. To aid in financing such guaranteed payments the employer would be obligated to contribute to a reserve fund, building it up to an appropriate maximum and replenishing it as necessary. A supplementary feature of the UAW proposal would require the employer to provide a full week (40 hours) for any worker called in for work or to pay full wages for any part of the week in which employment is not provided.

The UAW-CIO advances a number of arguments in favor of its proposal. Some are specific to the automobile industry, others more general. Much more can be done by the employer, it contends, if the financial incentive is substantially increased. To demonstrate that automobile employment is uneven, the union cites the regular seasonal layoffs, the serious "recession" decline last year, the shifts of orders and even of plants from one community to another, and the immediate short-range effects of technological changes. The union makes no effort to say just how stabilized employment can be achieved, considering that that is a "management prerogative."

So far as unemployment remains in the industry, the union contends, its cost should be borne by the employer, for it is beyond the control of the worker. As with other demands for economic security, the union urges that the costs of flexibility should not be levied against the workers. It recognizes that some sharing of costs has already occurred through the operation of Unemployment Compensation (UC). In part, the demand is a reaction to the inadequacy of the UC program which, because of low benefits, inadequate coverage, inadequate duration, and sharp disqualification features, covers no more than 25 percent of the present unemployment costs of workers. With GAW, the union believes the companies will join in efforts to improve UC.

Finally, the union argues that it puts only as much of a brake on technological advances as is necessary to safeguard the worker. It urges, indeed, that the recent rapid advances and the prospects of more automation at once make the costs not too onerous for the employer and the need urgent for the workers.

## The Employers' Response

Employer arguments against GAW are numerous and important. Most of these are not publicly expressed by automobile employers but by other industry spokesmen. For in contrast to the union, Ford and General Motors are focusing on the privacy of the bargaining table



rather than on mass media. It appears, however, that the companies are strongly opposed to the principle of GAW and contend that through constant efforts they have already achieved a significant degree of stabilization for the auto worker. Beyond this, they appear to argue, lie the unavoidable competitive facts of the industry, its changing technology, and the fluctuations in demand.

In addition, industry spokesmen contend, GAW is so costly that it will overburden many firms and industries. An economist has recently estimated that even for a relatively stable and expanding industry there would be a cost of 6 percent of payrolls. This compares with the average 1½-percent payroll cost of UC. Even if this is considered not too serious a cost for Ford and General Motors, it could be a very heavy burden on the smaller competitors and on parts manufacturers.

Furthermore, it is feared that once the principle of guaranteed employment is accepted, there will follow:

(1) Union pressure for wider plans at increasing costs, (2) union insistence on a voice in management plans affecting employment stabilization, and (3) government intervention to require stabilization. In addition, while insisting that the auto industry is now highly competitive, some fear that a requirement to stabilize employment would induce monopolistic practices.

Finally, industry spokesmen argue, guarantee plans can, at best, be adopted to provide for only a favored few of the workers in the economy and, through price increases, at a cost paid by all the others. Basically, all of these arguments rest on the contention that management and government already have all the incentive necessary for the maximum efforts at stabilization. To emphasize stabilization any further, it is argued, will be at a serious cost to the dynamism of the economy (including labor mobility). And, it is urged, it is this dynamism which is the source not only of relatively stable jobs, but also of increasingly higher paying jobs.

## Unresolved Problems

At this writing, it is not possible to predict the outcome of the bargaining. Two aspects of the general problem can, even at this stage, be noted: The relation between UC and GAW, and the problem of costs.

Numerous plans, including that of the UAW, assume that corporation payments to its unemployed workers will supplement, not replace, unemployment compensation. This is not to say that the union wants no increase in UC. On the contrary, it insists that if employers find that their own costs can be reduced, they will urge rather than oppose improvements in the state and national compensation systems. But the union does insist that in addition to any state-wide general but minimum UC improvements, collective bargaining provide a basis for additional benefits to workers and industries in accordance with their particular circumstances. This parallels its actions in the field of old age pensions.

It is by no means clear that present UC laws permit this supplemental system. It may well be that the combination will not be possible unless and until state laws are amended to permit it.

One of the important difficulties of the cost aspect of the plan is its uncertainty. In the first place, cost estimates depend to a degree on the accuracy of the union assertion that employers, industry, and government can achieve greater stabilization. In the second place, there are many different variables in the eligibility and payment formula that can significantly affect costs. In the

third place, a plan could include, as some proposed and existing plans do, a top limit on the employer liability. These considerations suggest that some industries are much more able to adopt such a plan than are others. They also suggest there is a wide range of possible plans. One might be based on the "principle" but involve low costs and provide few benefits; another might become impossibly burdensome in an effort to provide extreme benefits.

## Basic Issues

To this observer there are two general principles involved in the forthcoming automobile negotiations that are basic: a choice of approaches for the distribution of the fruits of progress and a choice between private and governmental decision-making.

The UAW program involves putting moderate brakes on the economic progress of the industry to better protect the worker. Some other unions agree with many employers in preferring to accept somewhat greater risks for the worker in return for the hope of even larger hourly wage rates. This latter approach emphasizes the fact that relatively unrestricted adjustments of employment, permitting employers to adapt their operations to changing markets and advancing technology, have importantly contributed to the growth of the auto and other industries and to the increasing standard of living of auto workers and others. But it has been at the cost of job insecurity and, in fact, of substantial unemployment. The recession of the past year, the probable layoffs in the industry later this year, and experiments with automation not only give emphasis to this point but account for much of the pressure behind the UAW demand.

On the other hand, the UAW plan emphasizes the inequity of achieving progress at the cost of worker unemployment. This approach would accept a moderate restriction on the dynamics of market and technological adjustment in order to emphasize worker security. It would, by no means, prevent economic change, but it does represent a union choice of greater security rather than an exclusive emphasis on hourly-rate increases.

Perhaps it is of equal significance that the current automobile negotiations represent the decision-making process by private parties. To date, there is no sign that the government will do any more than provide mediational assistance to aid and urge the parties to come to some agreement on their own terms. This kind of neutrality will be in accord with the position of a large percentage of management and of labor spokesmen. It will accord with present government policies and contrast with policy in the years immediately after World War II.

Through private bargaining, the parties adjust to their particular circumstances. In consequence, wage rates and many kinds of working conditions, as well as approaches to employment security, differ widely on the basis of competitive and technological circumstances, the preferences of the parties, and the relative bargaining power of the specific negotiators. In the automobile industry there may be an agreement for a degree of worker security either not available or not desired in many other parts of the economy. If such an agreement is reached, however, it can be expected to increase the pressure on other bargainers to adopt this approach to sharing economic progress. It may also be expected to sharpen the governmental question whether further progress in worker security would be better made by increasing standards under Unemployment Compensation and other devices intended to stabilize the national economy.

# LOCAL ILLINOIS DEVELOPMENTS

Seasonal factors and fewer working days led to declines in many Illinois business indicators during February. Construction contracts awarded suffered the largest drop, 17 percent, falling below year-ago levels for the first time in many months. Major declines were also recorded in electric power production, petroleum output, bank debits, and department store sales. On the other hand, appreciable gains were registered in coal production and percent of steel capacity used, 6 and 8 percent respectively.

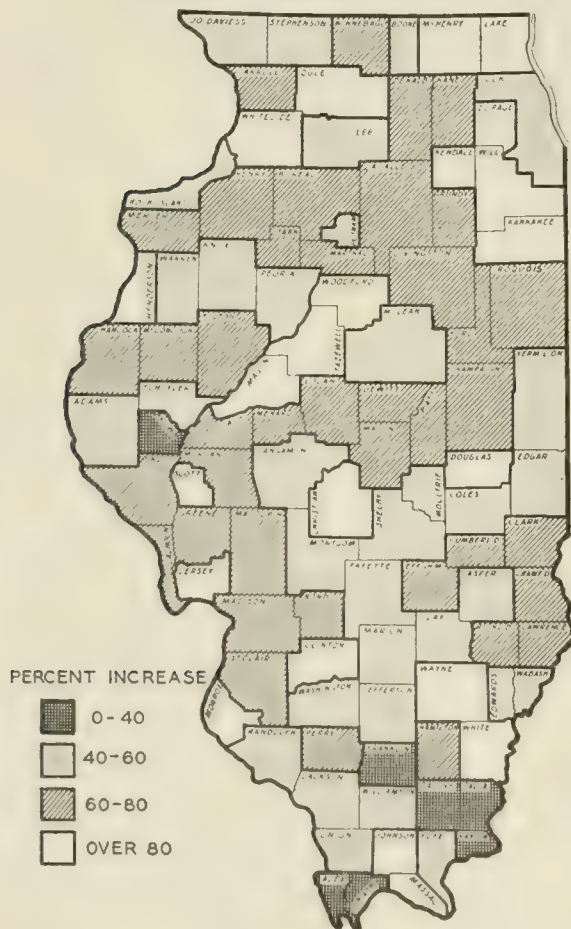
Comparisons with February, 1954, provide a more encouraging picture. As compared with last year, electric power output was up 16 percent, petroleum production gained 17 percent, and bank debits rose 7 percent.

## Retail Sales Growth

Since the end of World War II retail sales in Illinois have increased by 57 percent, advancing from \$6.6 billion in 1946 to \$10.3 billion in 1954. As may be seen in the chart below, the growth was spread throughout the State. Gains ranged from 21.6 percent in Hardin County to 148.5 percent in DuPage County, where much of Chicago's suburbanization has taken place.

More than half of the sales growth took place in the first two years following the war and the end of rationing. Sales shot upward 20 percent in the first year, 1947, and gained another 10 percent in 1948. The inventory recession in 1949 reduced retail sales slightly below their 1948 level, but since then sales have risen every year.

INCREASE IN RETAIL SALES, 1946-54



Source: Illinois Department of Revenue.

It should be noted that the retail sales totals estimated from 1953 tax collection data are not comparable with those for other years. For a few months in 1953 the State attempted to make collections on items later resold tax-free under the exemption of services, such as medical supplies sold to a doctor, building materials sold to contractors, or parts sold to repairmen. These sales became part of the total for 1953, but they are not reflected in earlier years or in 1954.

How much difference adjustment for this would make in our sales estimates we are unable to tell, but it is likely that retail sales rose last year, whereas the tax collection data indicate a slight decline. Among the cities significantly affected by this change were Bloomington, Kankakee, Quincy, Rockford, and Springfield.

## Southern Illinois Industrial Development

Reports from all over the State indicate that Illinois is still receiving its share of industrial growth. Especially encouraging is the news from the southern counties where unemployment has been a major problem.

In large measure the development which has taken place in southern Illinois has resulted from the efforts of local groups who have taken advantage of the trend toward industrial dispersion in attracting plants to their areas. Mt. Vernon New Industries, Incorporated, is one such group. In the past year two plants have moved into that area through their work. These are the General Radiator Company, which manufactures radiators for industrial equipment, and the Precision Engineering Company, makers of crankshafts for Diesel engines.

Centralia Industries, Incorporated, built a plant last year which it has leased to the Oneida Paper Products Company of Clifton, New Jersey. Production began at the plant in November with employment of 60 persons.

The Norge Division of Borg-Warner Corporation, which operates a washing machine manufacturing plant in Herrin, is currently adding about 70,000 square feet of floor space. This will provide employment for about 500 additional workers. The plant was originally brought to that area as a result of the efforts of the Herrin Community Council.

The Norge stove plant in Effingham moved into the production of clothes dryers and built-in ovens in 1954. As a result employment increased by about 850 persons to 1,300 between March, 1954, and March of this year.

## Prospective Plantings

Preliminary indications are that Illinois farmers will plant a record acreage in the coming months. Expected plantings for the major crops total 21.9 million acres, 300,000 more than in 1954 and 1 million more than the average planted for 1944-53. Increases of 1 and 5 percent respectively are planned for the two most important crops, corn and soybeans. This would result in a new all-time high for soybeans. Barley and rye, although relatively minor crops, are expected to cover about 200,000 more acres than they did in 1954. The only major offset to these increases is a prospective decline of 7 percent in hay acreage. If rainfall is normal during the crop season, Illinois should have record field crops in 1955.

The orchard crops will not fare so well. The peach and apple crops of southern Illinois may have been cut as much as 80 or 90 percent as a result of the severe cold which followed the blossoming of the trees.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

February, 1955

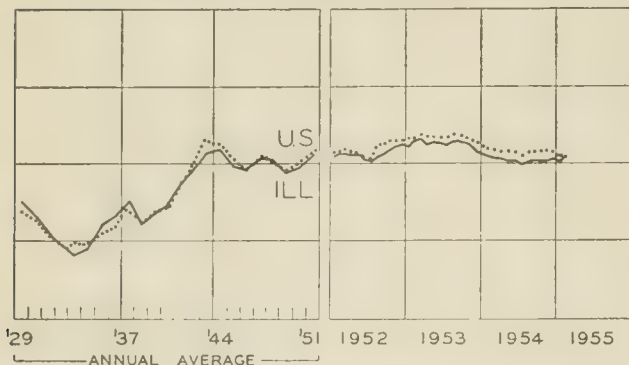
		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b>							
ILLINOIS.....		\$22,253 <sup>a</sup>	1,021,643 <sup>a</sup>	\$507,085 <sup>a</sup>		\$12,246 <sup>a</sup>	\$13,300 <sup>a</sup>
Percentage Change from.....	{ Jan., 1955.....	+29.2	+0.2	-29.1	-10	-6.1	+1.7
	{ Feb., 1954.....	-15.8	+6.6	-0.8	0	+6.6	+1.5
<b>NORTHERN ILLINOIS</b>							
Chicago.....		\$15,511	780,885	\$375,323		\$11,235	\$11,577
Percentage Change from.....	{ Jan., 1955.....	+17.8	-0.2	-29.1	-10	-5.8	+2.2
	{ Feb., 1954.....	+30.8	+4.5	-2.3	0	+6.9	+2.4
Aurora.....		\$ 290	n.a.	\$ 7,013		\$ 45	\$ 124
Percentage Change from.....	{ Jan., 1955.....	+16.9		-27.2	-20	-12.7	+13.2
	{ Feb., 1954.....	+50.3		+3.7	-4	+9.4	+26.6
Elgin.....		\$ 192	n.a.	\$ 5,150		\$ 30	\$ 95
Percentage Change from.....	{ Jan., 1955.....	+97.9		-35.5	-4	-9.0	-1.0
	{ Feb., 1954.....	+5.5		+10.8	+1	+17.5	+15.7
Joliet.....		\$ 256	n.a.	\$10,602		\$ 58	\$ 88
Percentage Change from.....	{ Jan., 1955.....	+9.9		-27.4	-1	-12.0	+0.6
	{ Feb., 1954.....	-15.8		-14.3	+11	+9.1	+21.7
Kankakee.....		\$ 141	n.a.	\$ 5,012		n.a.	\$ 37
Percentage Change from.....	{ Jan., 1955.....	+27.0		-28.6	n.a.		+7.8
	{ Feb., 1954.....	-34.7		+8.3			+11.6
Rock Island-Moline.....		\$ 534	22,512	\$ 8,777		\$ 73 <sup>b</sup>	\$ 146
Percentage Change from.....	{ Jan., 1955.....	+76.2	-3.1	-25.9	n.a.	-11.5	-6.8
	{ Feb., 1954.....	-39.6	+14.5	+1.7		+3.9	-4.7
Rockford.....		\$ 918	38,086	\$16,151		\$ 133	\$ 200
Percentage Change from.....	{ Jan., 1955.....	+40.2	+10.7	-24.0	-10°	-6.6	-4.7
	{ Feb., 1954.....	+87.0	+19.2	+9.1	-3°	+7.3	-1.2
<b>CENTRAL ILLINOIS</b>							
Bloomington.....		\$ 262	7,562	\$ 4,807		\$ 50	\$ 85
Percentage Change from.....	{ Jan., 1955.....	+344.1	+2.9	-30.9	n.a.	-13.0	+7.3
	{ Feb., 1954.....	-73.7	+6.1	+1.5		-5.6	-13.1
Champaign-Urbana.....		\$ 233	9,979	\$ 6,662		\$ 50	\$ 86
Percentage Change from.....	{ Jan., 1955.....	+57.4	-0.9	-28.5	n.a.	-10.0	+1.9
	{ Feb., 1954.....	+308.8	+10.0	+3.7		-2.5	-4.4
Danville.....		\$ 53	10,056	\$ 5,340		\$ 40	\$ 51
Percentage Change from.....	{ Jan., 1955.....	-74.5	-3.2	-31.4	-1	-12.0	-15.5
	{ Feb., 1954.....	-61.0	+6.5	+3.1	+4	+1.9	-2.6
Decatur.....		\$ 610	28,017	\$ 9,433		\$ 85	\$ 106
Percentage Change from.....	{ Jan., 1955.....	+30.1	+10.1	-33.4	-17°	-13.3	+1.2
	{ Feb., 1954.....	+9.7	+25.5	+8.4	-9°	+2.5	-0.6
Galesburg.....		\$ 119	7,589	\$ 3,730		n.a.	\$ 33
Percentage Change from.....	{ Jan., 1955.....	+35.2	+2.8	-33.1	n.a.		-6.5
	{ Feb., 1954.....	-3.3	+12.7	+3.5			+13.8
Peoria.....		\$1,963	49,653°	\$15,464		\$ 175	\$ 216
Percentage Change from.....	{ Jan., 1955.....	+232.1	+1.1	-28.2	0°	-5.6	-8.9
	{ Feb., 1954.....	+376.5	+16.8	+3.3	+5°	+1.6	+3.0
Quincy.....		\$ 274	8,848	\$ 4,426		\$ 34	\$ 64
Percentage Change from.....	{ Jan., 1955.....	+218.6	+3.1	-32.0	-4	-11.9	+5.2
	{ Feb., 1954.....	-36.9	+16.4	-6.1	-1	+0.8	-14.8
Springfield.....		\$ 213	28,879°	\$11,932		\$ 90	\$ 264
Percentage Change from.....	{ Jan., 1955.....	-44.8	-7.9	-30.2	n.a.	-12.7	+8.5
	{ Feb., 1954.....	-97.7	+11.5	+7.3		+4.4	+19.4
<b>SOUTHERN ILLINOIS</b>							
East St. Louis.....		\$ 318	11,665	\$ 8,556		\$ 116	\$ 57
Percentage Change from.....	{ Jan., 1955.....	+88.2	-2.1	-27.4	n.a.	-8.5	-26.1
	{ Feb., 1954.....	+11.2	-3.8	+6.5		-0.0	+2.1
Alton.....		\$ 343	11,675	\$ 4,527		\$ 33	\$ 29
Percentage Change from.....	{ Jan., 1955.....	+276.9	-2.9	-31.2	n.a.	-5.4	-7.6
	{ Feb., 1954.....	+289.8	+5.2	+4.6		+2.5	-6.8
Belleville.....		\$ 23	6,238	\$ 4,179		n.a.	\$ 41
Percentage Change from.....	{ Jan., 1955.....	-80.0	-1.6	-25.6	n.a.		-3.1
	{ Feb., 1954.....	-39.5	+6.0	+9.9			+3.0

<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for January, 1955, the most recent available. Comparisons relate to December, 1954, and January, 1954. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

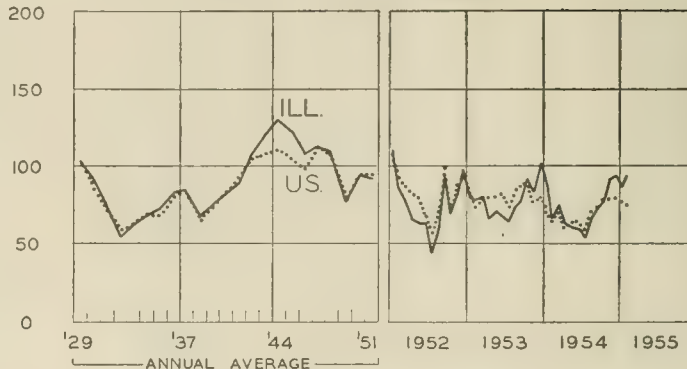
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

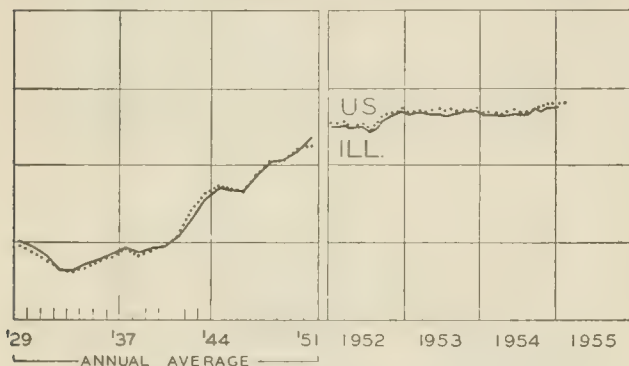
EMPLOYMENT - MANUFACTURING



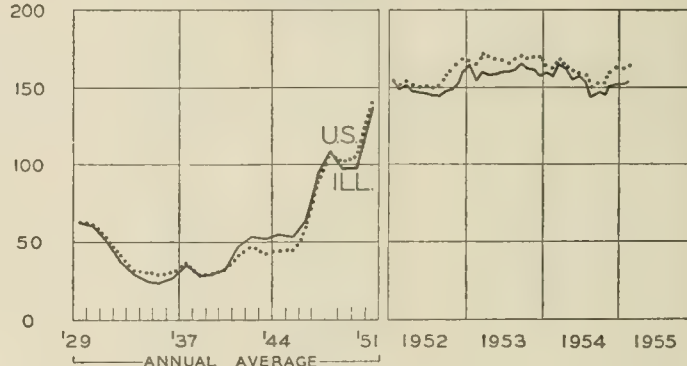
COAL PRODUCTION



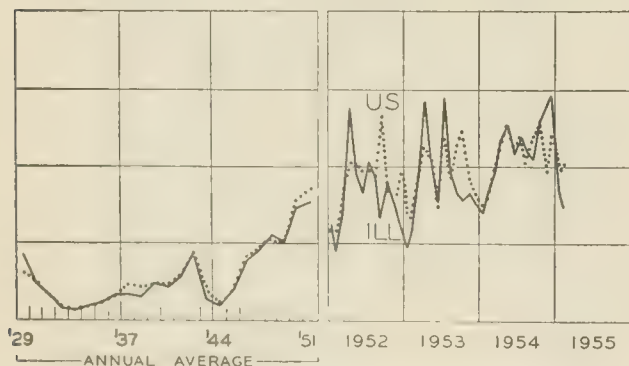
AVG. WKLY. EARNINGS — MANUFACTURING



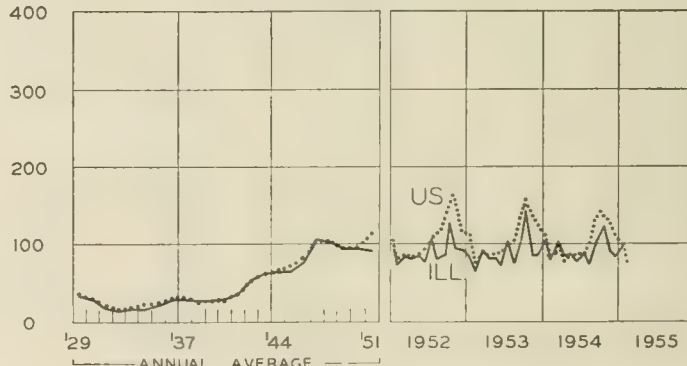
BUSINESS LOANS



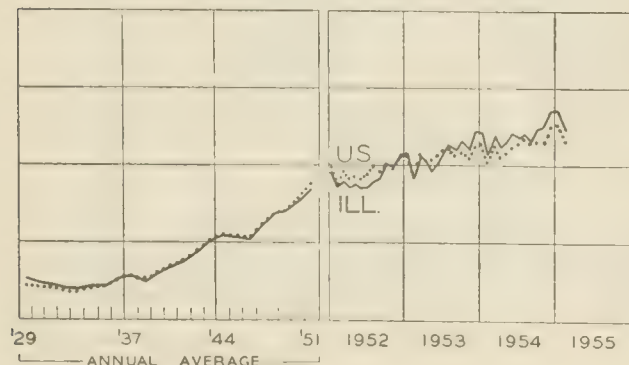
CONSTRUCTION CONTRACTS AWARDED



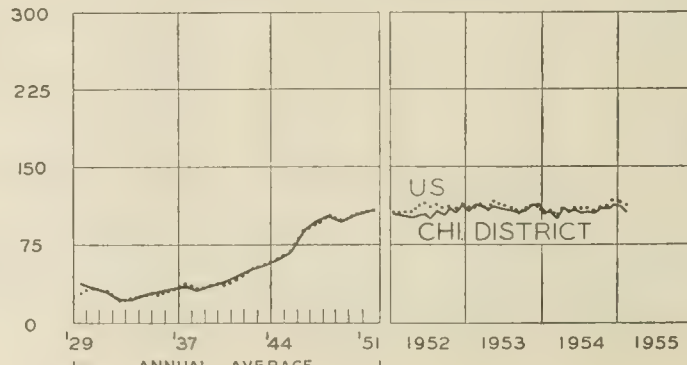
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

THE LIBRARY OF

MAY 31

UNIVERSITY OF ILLINOIS



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BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

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## HIGHLIGHTS OF BUSINESS IN APRIL

Indicators of business activity continued to delight the optimists in April, with activity increasing on a broad front. During the month the Federal Reserve index of industrial production rose several more points, construction activity reached a new peak, railroad carloadings were running 13 percent above last year by the end of the month, and department store sales moved up sharply (after adjustment for seasonal variation). An interesting, and welcome, feature of the present boom is that it may be accompanied by stable prices. The Bureau of Labor Statistics index of wholesale prices has registered practically no increase so far this year.

Although there were minor weaknesses here and there—particularly in the agricultural sector—they were few relative to the broad scope of the advance.

### Employment at Peak

Reflecting the higher level of industrial activity was a sharp increase in civilian employment which raised the number of people with jobs to a new high for the month of April, 61.7 million. The increase from March, 1.2 million, was the largest monthly gain in nine years. At the same time unemployment dipped just below the 3-million mark for the first time this year.

The improvement in the employment situation was compounded partly of seasonal pickups in activity in certain industries—notably farming and construction—and partly of the increased need for factory workers in steel, autos, machinery, and other expanding industries. The increase in factory employment ran counter to the usual seasonal pattern of decline between March and April.

### New Construction Records

No letup in the construction boom was evident in April. The value of new construction put in place during the month rose to \$3.2 billion, up seasonally from the preceding month and considerably above the previous peak of \$2.8 billion established in April of last year.

Adjusted for seasonal influences, construction activity this April corresponded to a previously unmatched annual rate of \$41.6 billion. Pacing the increase in construction activity this year have been record outlays for private homes, commercial buildings, schools, churches, sewer and water facilities, and highways.

Evidence that construction may continue at record levels is provided by an F. W. Dodge report of a 37-

percent increase in the value of building contracts awarded in the 37 states east of the Rockies this April as compared with April of last year. Residential contract awards for the month topped all previous records.

### Farm Income: Current and Prospective

Net income of farmers in the first quarter of this year rose to an annual rate of \$11.9 billion, up sharply from the low fourth quarter of 1954 and only slightly below 1954 as a whole. The rise was due principally to a less-than-seasonal decline in first-quarter marketings—mainly hogs, soybeans, apples, and oranges—and to a large volume of proceeds from CCC loans on crops, which is counted as income when the loan is made.

For 1955 as a whole the outlook is for lower farm income than in 1954, according to the United States Department of Agriculture. Cash receipts from farm marketings are likely to decline this year because of further acreage restrictions on cotton and wheat, lower support prices for wheat, and considerably reduced prices for hogs. Although farms specializing in broilers, eggs, and oil-bearing crops may do better than last year, farmers' net income in the aggregate may drop 5 percent below the 1954 figure.

### State of the Market

The stock market currently is in a "healthier condition" than in 1929, but the situation is "much less favorable" when compared with 1927, the year the bull market of 1929 first began. This is the gist of a report issued at the end of April by the Senate Banking Committee headed by Senator Fulbright on the background of the present boom.

The report views with concern the recently increased stock buying on margin and points to the possibility that an increasing proportion of stock trading may be for speculation rather than for investment income. As a result, the report concludes that if stock prices continue to rise the monetary authorities may have to choose between tightening credit controls to prevent "excesses" and taking no action, thereby running the risk of another 1929 stock market crash.

That the monetary authorities are not unaware of this danger was indicated by the action of the Federal Reserve Board a week earlier in raising margins from 60 to 70 percent. This increase was the second in ten weeks.

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## The Way of All Booms

Early in 1954 residential construction began to recover from the mild setback imposed by the hard money policy and the business recession of 1953. The recovery accelerated sharply in mid-1954 when financing became available on easier terms. By early 1955, home building was at a seasonally adjusted annual rate of 1.4 million units, about equivalent to the level of 1950, the previous peak year.

The upsurge in building activity was accompanied by an even more impressive growth of optimism on the part of lenders and builders. Many now feel that the future is assured, that construction will remain high through the years just ahead, until growth of the economy pushes it higher still.

### The Housing Cycle

Studies based on data going back more than a hundred years show that there have been recurring fluctuations of housing construction, from boom to depression and then up again to new peaks, which in turn were followed by new declines. These wavelike movements, or cycles, have averaged about 18 years in length, and the evidence of their regularity has been generally accepted for some years. Recently the concept of such a cycle has been challenged, and the denial of its existence has been made part of the current optimistic view of the outlook for construction. On the evidence, however, this view can hardly be considered proved.

The construction cycle is a kind of inventory cycle made extreme in amplitude and in duration by the inflexibility of the industry and by the durability of its products. The essence of such a cycle lies in the fact that the economy rushes to correct any deficiency that happens to develop. In doing so, it expands production to a rate that cannot be sustained by the needs of long-term growth. Then, after a while, production has to be curtailed to bring it into line with needs, and this cutback brings on the decline. In the following period of stagnation, a deficiency again develops and the new cycle gets under way.

The underlying needs to be satisfied by home building relate to the number of families requiring separate living quarters. Family formation is much steadier than building. The latter soars above the former in the boom and falls far short in the depression. At the present time, construc-

tion is running at least double the rate of family formation.

The course of each cycle differs from those that precede or follow it, depending upon the specific conditions that exist at the time. Among such modifying conditions are a variety of demographic, economic, and political factors which affect the adequacy of the housing supply in the places where people desire to live. During booms, incomes are high and all the non-monetary factors are made fully effective in raising new construction to a peak. The cycle ties their action together. But when the turn comes, all these special factors tend to lose their force, contributing to the severity of the decline. To say that high incomes and other factors are maintaining construction today tells little about what may happen next.

A postwar cycle is likely to be particularly vicious in its swings to boom and depression. The war restricts construction and creates an abnormal backlog of demand, which is made effective in part by accumulated savings. The need for housing is then further augmented by the rapid rate of family formation as the veterans return home and by the high rate of migration as many of them move their families to new locations with which they have become acquainted. Demand is seemingly endless and the industry responds magnificently to meet it. Unfortunately, the higher the rate of building the industry achieves, the worse must be the letdown that follows.

Even those who have attempted to repeal the cycle concede that their arguments do not apply to postwar situations. Since this, too, is a postwar boom, their position offers little hope for the optimists.

### The Housing Act of 1954

More important as a basis for optimism than any theoretical arguments about the housing cycle has been the recent upsurge in new construction. Coming at a time when over 8 million nonfarm units had already been built since the end of the war, the new advance seems to give the lie to any threat of a decline.

A new factor introduced into the situation last year was the striking change in financing terms. The government passed the Housing Act of 1954 in an atmosphere of rising unemployment, brought on in part by the cutbacks in military programs. Down payments on FHA loans were reduced and maturities were extended. In early 1955, about a tenth of VA mortgages were on the easiest terms—with no down payment and with maturities of 25 to 30 years. In addition, special inducements were being used by builders to entice home buyers into what have come to be known as "no, no down payment" contracts.

Whenever terms are thus set below the standards justified by sound business practice, something is in effect being given to the buyer without charge. Many buyers in earlier postwar years have felt that building would enable them to live in their own homes for monthly payments lower than rent. Many others, who previously could not meet financing terms, are now enabled to arrive at the same conclusion.

With the movement to new single-family dwellings in the suburbs thus subsidized, many more such units had to be built. Since the middle of 1954, requests for VA appraisals have roughly doubled year-earlier volumes. The increase in new housing starts from early 1954 to early 1955 was practically all accounted for by the increase in government-guaranteed mortgage loans.

(Continued on page 6)



## **FOOD CHAINS**

The rise of the chain-store system in the United States has been closely linked with its development in food distribution. Although retail chains have been traced back to the days of ancient Rome and China, the forerunner of our modern chain store appeared in 1859, when George Hartford and George Gilman founded the Great American Tea Company at the tip of lower Manhattan. This was the beginning of the Great Atlantic and Pacific Tea Company, today the largest food chain in the world.

During the early part of the twentieth century, food chains increased both in the number of companies and in the number of stores operated. Customers favored chain stores from the start, primarily because of lower prices. As the chains took over an increasing share of the market, serious efforts were made to penalize the new chain-store method of distribution by legislation, and at one time 29 states had discriminatory taxes against them. Little by little, nearly all anti-chain legislation has been eliminated, and independents have in turn adopted chain-store methods, at least in their purchasing operations, with the result that they too have increased their sales.

The development of self-service, which led to the modern supermarket, began in the early 1930's and was adopted by the food chains and rapidly extended. By 1953, self-service had been extended to include the pre-packaging of meats with an estimated 7,000 stores offering complete self-service meat departments as compared with only 10 stores in 1944. The pre-packaging of fruits and vegetables has been adopted on a nation-wide basis, but many stores offer these items both pre-packaged and in bulk. This trend to self-service has made significant changes in merchandising, and it is estimated that 90 percent of all grocery products are now sold by this method.

The major features of the food chain are lower prices, self-service, full lines of merchandise, and parking facilities. Another feature is the departmentalization of the various commodities. In addition to groceries, fresh produce, and meats, they also have departments for bakery goods, dairy products, proprietary drugs, and delicatessen needs. Although not all of these features may appear in every chain store, they are characteristic of the system as a whole and help explain why retail food chains do approximately 40 percent of the food store business.

### **Major Illinois Food Chains**

The National Tea Company, fifth largest food chain in the country, opened its first store on December 9, 1899, in Chicago. It currently operates 710 stores and serves 10 states, mainly in the Midwest. In recent years the company has expanded vigorously, and plans call for the opening of 85 new stores during 1955. By aggressive advertising, National Tea has increased its net sales from \$157.6 million in 1946 to \$520.2 million in 1954.

The Kroger Company, third largest retail food chain in the United States, operates through 25 branch offices located in 19 states. Because of intensive centralization of small stores into single, modern supermarkets, the company reduced its retail outlets from 4,000 in 1939 to ap-

proximately 1,800 in 1954, 269 of which were located in Illinois. Through the aid of sizable manufacturing operations including company-processed and packaged brands, net sales of Kroger have increased from \$573.7 million in 1946 to \$1,108.8 million in 1954.

The Great Atlantic and Pacific Tea Company is the largest retail organization in the United States, with approximately 4,600 stores throughout the country. It operates numerous processing plants and bakeries, and is the country's largest single purchaser of fruits and vegetables and the world's largest purchaser of coffee. Net sales for 1954 are estimated at \$4 billion, more than double 1946.

The Jewel Tea Company, located at Barrington, Illinois, operates 167 self-service retail food stores confined to the Chicago metropolitan area and in addition has 2,151 home-service routes in 42 states and the District of Columbia. Jewel opened the first self-service market in Chicago and currently operates a larger number of stores within the city than any other food chain. It is the seventh largest food chain in the country in terms of net sales, which totaled \$260 million in 1954, nearly three times the level of 1946.

### **The Future Outlook**

For the last 25 years chain food stores have been growing larger, but the number of stores has been diminishing. However, the chains have consistently increased their share of sales until they currently account for 20 percent of all retail sales as compared with 16 percent in 1933.

The extremely high cost of putting a store into operation has limited the number of stores, but sales per store have increased many fold. For example, in 1933 there were approximately 47,000 chain food stores, each costing from \$7,000 to \$15,000 to equip and stock for operation with weekly sales averaging \$1,000. In 1953, there were only 27,000 chain food stores, each costing from \$125,000 to \$500,000 for equipment and merchandise but with weekly sales averaging \$10,000. Thus the need for improved and more expensive equipment to handle the larger volume of business has greatly increased the cost of the average food chain as compared with 20 years ago.

It is possible that the chain food store of tomorrow will be entirely self-service with a complete line of bakery goods, frozen foods, pre-packaged meats and produce, dairy foods, and groceries. In addition, non-food departments, selling drugs, hardware, clothing, magazines, appliances, and other products, have been successfully introduced and have made substantial inroads in their respective fields.

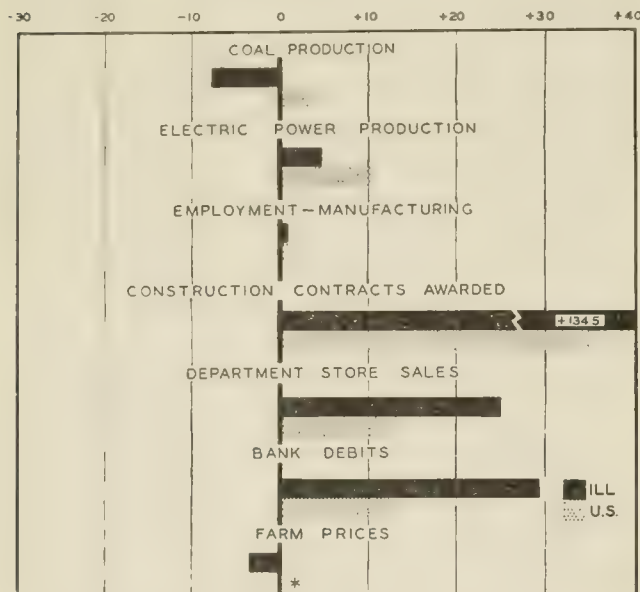
In view of a rapidly growing population and a relatively high disposable consumers' income, the outlook for future sales gains is encouraging. New developments, however, seldom make any provisions for the old-style store. Thus, with continued expansion in supermarkets to serve new and growing communities, food chain stores will undoubtedly capture an increasing proportion of retail sales in coming years.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes February, 1955, to March, 1955



\* No change from previous month.

## ILLINOIS BUSINESS INDEXES

Item	March 1955 (1947-49 =100)	Percentage Change from	
		Feb. 1955	Mar. 1954
Electric power <sup>1</sup> .....	195.3	+ 4.9	+ 9.4
Coal production <sup>2</sup> .....	85.7	- 7.9	+15.4
Employment—manufacturing <sup>3</sup> .....	103.2	+ 1.0	- 0.1
Weekly earnings—manufacturing <sup>3</sup> .....	139.1 <sup>a</sup>	+ 0.7	+ 5.2
Dept. store sales in Chicago <sup>4</sup> .....	107.0 <sup>b</sup>	- 1.8	+10.3
Consumer prices in Chicago <sup>5</sup> .....	117.0	- 0.1	+ 0.3
Construction contracts awarded <sup>6</sup> .....	333.6	+134.5	+71.0
Bank debits <sup>7</sup> .....	181.3	+29.4	+ 5.6
Farm prices <sup>8</sup> .....	82.0 <sup>c</sup>	- 3.5	-14.6
Life insurance sales (ordinary) <sup>9</sup> .....	212.7	+26.5	+ 7.0
Petroleum production <sup>10</sup> .....	124.6	+16.6	+23.2

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.  
<sup>a</sup> February data; comparisons relate to January, 1955, and February, 1954. <sup>b</sup> Seasonally adjusted. <sup>c</sup> Revised series.

## UNITED STATES MONTHLY INDEXES

Item	March 1955	Percentage Change from	
		Feb. 1955	Mar. 1954
Annual rate in billion \$			
Personal income <sup>1</sup> .....	294.2 <sup>a</sup>	+ 0.6	+ 3.2
Manufacturing <sup>1</sup> .....			
Sales.....	316.8 <sup>a</sup>	+ 4.8	+ 9.5
Inventories.....	43.7 <sup>a, b</sup>	0.0	- 4.6
New construction activity <sup>1</sup> .....			
Private residential.....	13.7	+10.7	+32.7
Private nonresidential.....	12.1	+ 5.7	+ 9.8
Total public.....	9.2	+16.7	- 2.5
Foreign trade <sup>1</sup> .....			
Merchandise exports.....	14.8 <sup>c</sup>	+ 5.8	+ 4.1
Merchandise imports.....	10.2 <sup>c</sup>	- 2.3	+ 5.1
Excess of exports.....	4.6 <sup>c</sup>	+29.9	+ 1.9
Consumer credit outstanding <sup>2</sup> .....			
Total credit.....	29.9 <sup>b</sup>	+ 1.5	+ 7.6
Installment credit.....	23.0 <sup>b</sup>	+ 2.1	+ 7.5
Business loans <sup>2</sup> .....	22.7 <sup>b</sup>	+ 2.1	- 0.3
Cash farm income <sup>3</sup> .....	22.8	- 0.9	- 5.6
Indexes (1947-49 = 100)			
Industrial production <sup>2</sup> .....			
Combined index.....	135 <sup>a</sup>	+ 1.5	+ 9.8
Durable manufactures.....	150 <sup>a</sup>	+ 2.0	+11.1
Nondurable manufactures.....	122 <sup>a</sup>	+ 0.8	+ 7.0
Minerals.....	123 <sup>a</sup>	0.0	+ 9.8
Manufacturing employment <sup>4</sup> .....			
Production workers.....	104 <sup>a</sup>	+ 1.2	+ 0.1
Factory worker earnings <sup>4</sup> .....			
Average hours worked.....	102	+ 0.7	+ 3.0
Average hourly earnings.....	139	+ 0.5	+ 3.4
Average weekly earnings.....	142	+ 1.3	+ 6.5
Construction contracts awarded <sup>5</sup> .....	279	+35.0	+39.7
Department store sales <sup>2</sup> .....	112 <sup>a</sup>	0.0	+ 6.7
Consumers' price index <sup>4</sup> .....	114	0.0	- 0.4
Wholesale prices <sup>4</sup> .....			
All commodities.....	110	- 0.4	- 0.5
Farm products.....	92	- 1.1	- 6.4
Foods.....	102	- 1.6	- 3.5
Other.....	116	- 0.1	+ 1.2
Farm prices <sup>3</sup> .....			
Received by farmers.....	90	0.0	- 4.3
Paid by farmers.....	114	+ 0.9	+ 0.9
Parity ratio.....	86 <sup>d</sup>	- 1.1	- 4.4

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for February, 1955; comparisons relate to January, 1955, and February, 1954.  
<sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1955					1954
	Apr. 23	Apr. 16	Apr. 9	Apr. 2	Mar. 26	Apr. 24
Production:						
Bituminous coal (daily avg.).....thous. of short tons..	1,439	1,408	1,371	1,361	1,317	1,141
Electric power by utilities.....mil. of kw-hr.....	9,697	9,602	9,633	9,804	9,907	8,257
Motor vehicles (Wards).....number in thous.....	212	205	196	206	205	147
Petroleum (daily avg.).....thous. bbl.....	6,832	6,828	6,811	6,807	6,863	6,586
Steel.....1947-49 = 100.....	133	133	133	132	131	95
Freight carloadings.....thous. of cars.....	706	674	663	659	639	626
Department store sales.....1947-49 = 100.....	112	103	122	114	103	101
Commodity prices, wholesale:						
All commodities.....1947-49 = 100.....	110.3	110.5	110.4	110.5	110.1	111.0 <sup>a</sup>
Other than farm products and foods.....1947-49 = 100.....	115.8	115.7	115.7	115.5	115.5	114.5 <sup>a</sup>
22 commodities.....1947-49 = 100.....	90.4	90.3	89.8	89.8	89.0	93.1
Finance:						
Business loans.....mil. of dol.....	22,530	22,654	22,556	22,707	22,747	22,348
Failures, industrial and commercial.....number.....	204	204	211	237	232	229

Source: Survey of Current Business, Weekly Supplements.

<sup>a</sup> Monthly index for April, 1954.



# RECENT ECONOMIC CHANGES

## Employment Advance

Employment advanced sharply in April to 61.7 million jobholders. This was up by 1.2 million workers from March and by nearly as much from April, 1954. A half million more workers were busy on farms in April than in March and nonfarm employment increased by 685,000, reflecting a contraseasonal advance in factory hiring.

Unemployment was off by 200,000 between March and April to less than 3.0 million, 500,000 less than in April, 1954. Census data in thousands of workers follows:

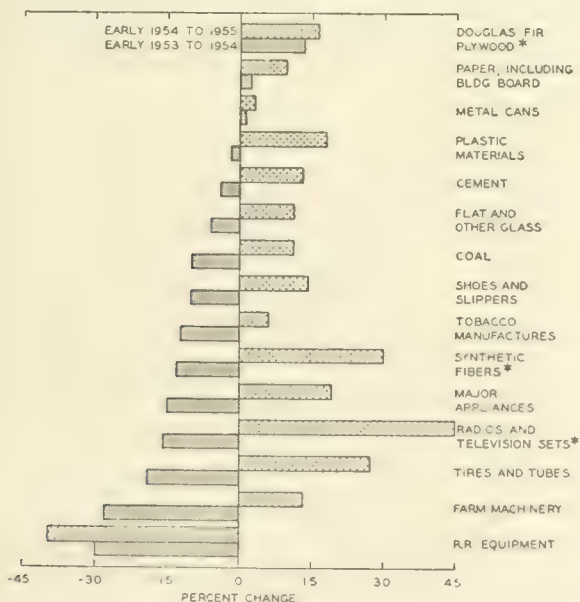
	April 1955	March 1955	April 1954
Civilian labor force.....	64,647	63,653	64,063
Employment.....	61,685	60,477	60,598
Agricultural.....	6,215	5,692	6,076
Nonagricultural.....	55,470	54,785	54,522
Unemployment.....	2,962	3,176	3,465

## Recovery in Production

Industrial production has recovered most of the ground lost during last year's business setback. By March the Federal Reserve Board's production index had advanced to 135 percent of the 1947-49 base, a level only 2 points below the 1953 peak and 10 points above average monthly production in 1954.

As shown by the accompanying chart, most lines of production declined between early 1953 and 1954, but recovery by the opening months of 1955 was widespread. Total industrial production fell 9 percent between the first quarters of 1953 and 1954 but was 7 percent above the year-earlier level by the first quarter of 1955. Production of some goods resisted the general downturn in 1954 and continued to advance during the recession and into 1955. In addition to plywood, paper, and metal cans (shown in the chart), other products in this category were glass

## CHANGES IN OUTPUT OF SELECTED PRODUCTS



\* First three months; other changes, first two months.  
Sources: U. S. Dept. of Commerce; Federal Reserve Board; Douglas Fir Plywood Assn.; Textile Economics Bureau, Inc.

containers, wood flooring, and woodpulp. Among products whose output fell off last year, many have gained at least as much as they lost. An exception was railroad equipment, production of which dropped in both years.

In general, consumer goods production of both durables and nondurables has recovered significantly. However, recovery in other industries, particularly those relying heavily on military contracts and on manufacturing producer's equipment, has been less pronounced.

## Foreign Aid Declining

United States military and economic assistance to foreign nations declined sharply in 1954. Net foreign deliveries by this country under the mutual security and other assistance programs totaled \$4.7 billion last year, more than a fourth below 1953. Both military and other assistance declined by about 25 percent, with military shipments down from \$4.3 billion in 1953 to \$3.2 billion in 1954, and other aid off from \$2.1 billion to \$1.5 billion.

The downtrend in military assistance which began in the first half of 1953 was reversed during the third quarter of 1954 when increased shipments to Indo-China brought military transfers to over a billion dollars. After hostilities were halted in Indo-China in July the decline in military shipments was resumed and in the last quarter of 1954 were less than half the rate of the first two quarters of 1953.

## Working Capital at High

Corporate net working capital reached a new high in 1954. By the end of the year the total was up to \$95.8 billion, a rise of \$3.2 billion during the year compared with \$2.5 billion in 1953 and \$3.7 billion in 1952. The increase last year was due to a substantial reduction in current liabilities. Both current assets and current liabilities declined during the year, but the decline in assets was only \$2.3 billion compared with a \$5.5 billion reduction in liabilities.

The drop in assets resulted from a \$2.8-billion cut in inventory holdings between the end of 1953 and the end of 1954 and a \$1.7-billion decline in corporate holdings of United States government securities. These reductions were partly offset by an increase of \$1.2 billion in notes and accounts receivable and slightly higher cash holdings and other assets.

On the liabilities side, the largest decline was in Federal income tax liabilities, which were down by \$3.5 billion during 1954. This decline reflected lower profits before taxes and elimination of the excess profits tax. Notes and accounts payable were also off sharply during the year, by \$2.4 billion, largely because of liquidation of short-term bank loans.

Because of the cutback in liabilities and in inventories, corporate liquidity—the ratio of cash and United States government securities to current liabilities—improved somewhat during the year. Cash and United States security holdings rose to 56 percent of liabilities, the highest ratio since mid-1951.

## Dividend Payments Higher

Corporations paid out \$1.4 billion in cash dividends during March, 6 percent more than in March, 1954.

First quarter dividends, at \$2.3 billion, were also 6 percent above the corresponding period of 1954. The

largest increase from the first quarter of 1954 occurred in the finance group where payments totaled \$318.5 million, 13 percent higher than a year ago. A slightly smaller rise in the communications industry was due mainly to expansion of equity capital. Investors in mining, railroad, utility, and miscellaneous nonmanufacturing industries received 5 to 6 percent more in dividends this quarter than in the first three months last year.

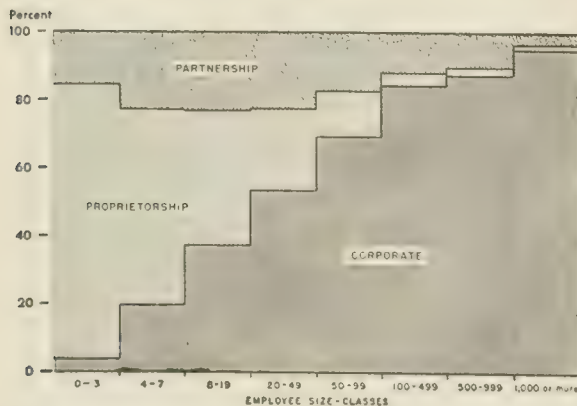
For manufacturing concerns as a group cash dividend payments increased by 4.5 percent between the first quarter of last year and the first quarter of this year. The largest advance was in the transportation equipment industry. Higher rates and larger extras led to a 20-percent rise in the group's disbursements. Gains of about 10 percent were reported for chemicals, nonferrous metals, and electrical machinery. Only textile concerns and the auto group reported declines between the two first-quarter periods.

## Business Population

Corporations currently account for a fairly small proportion of the business population—about an eighth—but account for three-fourths of national income and employment originating in the private nonfarm sector of the economy (excluding the professions). According to a report by the Department of Commerce, the corporate sector is currently somewhat larger relative to the non-corporate sector than in 1947, the most recent year for which detailed figures are available, but more recent reports indicate that roughly the same general distribution prevails today. In 1947, corporations made up about 11 percent of the total number of operating businesses, proprietorships about 70 percent, partnerships 17 percent, and other forms of organization about 2 percent.

The tendency for larger firms to be incorporated is illustrated by the chart. Individually owned businesses account for four-fifths of firms with fewer than 4 employees, and predominate in the service and retail trade industries. Among firms with 20 to 49 employees the importance of the proprietorship shrinks to about a fourth. Corporations become increasingly prevalent as the size of the organization increases, and account for virtually all businesses with more than 1,000 employees. They are most prevalent in manufacturing. Partnerships are relatively significant in middle-sized firms, accounting for a fifth to a fourth of firms having 4 to 49 employees.

ORGANIZATION OF THE BUSINESS POPULATION



Source: U. S. Department of Commerce.

## The Way of All Booms

(Continued from page 2)

The fact that these new units must be built partly at the expense of creating vacancies in the cities is ignored. Construction of apartment units, which was already far below the postwar peak, continued to drift lower. Vacancy rates in many of the large cities are again up to the pre-war level. The contention that these vacancies are unimportant because they are really substandard units anyway has never been substantiated. It is clear that many people will move if that is the way to gain a seeming advantage; the risks involved in assuming long-term fixed charges are frequently overlooked. It is not so clear that there is anything substandard about many of the units they are vacating.

Also ignored is the futility of stimulating the boom in its late stages. The only effect of such action is to add to the surplus that will eventually develop. Once a surplus develops, the only way to liquidate it is to curtail new construction and wait for the slow growth of demand to catch up with the existing supply. The more complete the saturation of the market now, the less there will be to build later. In the end, any action that brings on such a condition will only deepen and prolong the depression.

It is said that the government will do everything possible to prevent a depression in construction from developing. What this statement overlooks is that—short of large-scale building on its own account—the government is already doing it.

## The Boom Breeds Its Own End

It is also hopefully stated that housing will continue high as long as income continues high. There is nothing in the housing picture itself, so the statement goes, to initiate a decline.

The fault in this view arises from the persistent refusal to take account of the one thing that is sure to bring the boom to an end—the accumulation of housing units. The mere accumulation of houses will ultimately force a cutback in rates of construction, and this will inevitably throw the cycle into its declining phase. Even if income is otherwise maintained, the housing boom thus breeds its own ending.

It is true that a definite surplus does not now exist. Vacancy rates, though rising, do not appear to be overly burdensome (though data are not available to give a satisfactory indication of just how high they are or how fast they have been rising). The mere absence of a current surplus is no guarantee against its appearance. On the contrary, with construction far in excess of the growth in need, a surplus is bound to develop. Typically, the surplus does not appear to be large until after the turn. It grows most rapidly in the years when the stock of houses is still going up, but demand is falling off. If the economy is not yet over-built, at least it cannot be denied that it is over-building.

The conclusion seems unavoidable that residential construction is now running at a peak and sooner or later must go the one way that ends all booms. The current strength lends plausibility to the argument that there will be little decline this year, and possibly not much next year. It is harder to see any sound basis for the argument that building won't go down substantially during the next few years.

VLB



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Safety First

Accident prevention is the motive behind two new items on the market. One, for home use, is a plastic medicine dropper made by Mead Johnson and Company of Evansville, Indiana. The dropper will bend, twist, and squeeze, but will not break. For added convenience the dropper is calibrated.

The prevention of finger and hand injuries in the use of power presses is one of the main objects of the new Electro-Magnetic Back Gauge. This device holds the material in position against the back stop while the press ram is in motion, so that the operator's hands need never be in the way of the moving ram. Mistakes and spoilage are also reduced, according to the makers, since the work is positioned by electro-magnetism rather than by "feel," which is especially uncertain in the handling of small pieces. This device was developed by the American Actuator Corporation, 219 East 44th Street, New York 17, New York.

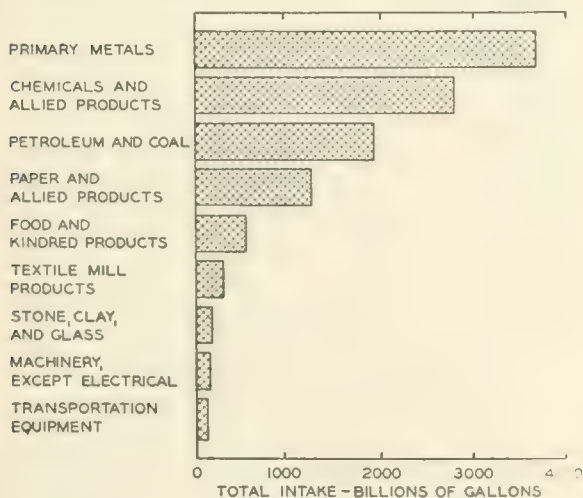
A new fire alarm system has been developed by the Pyrene Manufacturing Company of Newark, New Jersey. It is not dependent on visible smoke or heat, but has a radioactive element in the detector head which is said to locate the smallest fire within seconds after it occurs. It can be set up to notify either a private or a public fire department.

### Water Use in Manufacturing

Trillions of gallons of water are used each year by manufacturing firms in the United States. In the *Survey of Manufactures*, the Census Bureau puts the total consumed by firms using at least 20 million gallons at 11.4 trillion gallons in 1953. The total would be slightly greater if the smaller firms were included, although it is estimated that these larger firms account for 90 to 95 percent of the total.

More than half the water was consumed by firms which operated company water systems, with most of them dependent on surface water supplies such as lakes and streams rather than on ground sources such as wells.

WATER USE IN MANUFACTURING, 1953



Source: Bureau of the Census, 1953 *Annual Survey of Manufactures*.

Water use varies greatly from industry to industry, as shown in the accompanying chart of the nine largest users. These nine industries account for more than 95 percent of total water used in manufacturing. Almost one-third, 3.7 trillion out of 11.4 trillion gallons, is used in producing primary metals alone.

Water use varies among the states with the pattern of industrialization. Pennsylvania ranked first in 1953, the large firms there using 1,397 billion gallons. It was followed by Ohio, Texas, and New York, respectively. Illinois was the ninth largest state user, consuming 531 billion gallons.

### Electronics Elaborate

Electronic machines continue to make news this spring. Important steps have been made in adapting electronic brains to the needs of small businessmen. The Underwood Corporation, 1 Park Avenue, New York, brought out the "Elecom 50," designed to perform daily business operations of accounting and record keeping. They also have developed the "Electronic Codewriter," which can produce a five- to eight-channel punched tape along with any typing operation.

"Electronic ears" are being produced by the Craig Electronic Company in Los Angeles. The "Microsonic Detector" is a portable listening device expected to be particularly useful in termite control and in studies of insect behavior. A probe, connected to earphones, can be pushed into wood or earth to pick up any sound from movement of the insects. The detector, weighing 4½ pounds, sells for \$215.

Automotive mechanics may soon be X-raying engines to diagnose motor troubles. Socony-Mobile Oil Company has developed an "engine analyzer" which works somewhat like a television set to picture the movement of each cylinder on a screen. The electronic instrument will be manufactured and sold by the Allen B. DuMont Laboratories, Incorporated, of Clifton, New Jersey.

Machine-made music is under experiment at the Radio Corporation of America. Completely filling a small room, the electronic system can produce the tones of voice and of musical instruments as well as new tones, and blend them into orchestral arrangements. The system is operated by pressing keys which actuate transistors and electronic tubes; it is unnecessary for the operator to have a knowledge of instruments.

### Marketing Cost Controls

The application of cost accounting methods to marketing operations has been studied by the National Association of Cost Accountants. The purposes of the study were to examine useful techniques, to determine how well the techniques were suited to their purposes, and to discover how these techniques were used in practice. The study examines both theory and actual company practice, using material gathered from 42 companies.

The report on the study is given in three issues of the Research Series of the Association: Number 25, *Cost Control for Marketing Operations—General Considerations*; Number 26, *Control of Marketing Costs—Order Getting*; and Number 27, *Control of Marketing Costs—Order Filling*. These are available from the Association's office, 505 Park Avenue, New York 22, at a charge of 75 cents each.

# OUR SHIFTING POPULATION AND MARKETS

HENRY S. SHRYOCK, JR., and MEYER ZITTER

Bureau of the Census

The tides and currents of population movement that swirl over our country are of interest to business for at least two reasons. First, these movements affect the size and quality of markets in the different communities. Second, they affect the size and quality of the labor supply in these communities.

Almost half of the 1950 decade has passed and many changes have taken place during this period. Some information about these changes is available but not so much as we should like to have. At the national level the picture is fairly clear. Moreover, moderately good population estimates can be made for the states. For counties, cities, and other local areas, however, we have only fragmentary information—characteristically about the rapidly growing places that are motivated to pay for special censuses.

## Recent Redistribution of Population

The amount of population increase in the 1940's was the largest in our history, but the rate of increase (14.5 percent) was the second lowest. Nonetheless, this rate for the forties was twice that for the depressed thirties. Our population outlook had changed radically in 10 years—chiefly because of the war and its economic and psychological effects. Death rates had continued their gradual but persistent decline. The course of the birth rate was dramatically reversed after a long downward slide that had lasted as long as we have had records. The migratory streams that had been partially dammed by the depression were cleared and deepened in the early forties and are still flowing very freely. Contrary to some expectations, demobilization and reconversion in 1945, 1946, and 1947 did little to restore the prewar distribution of population. Instead, workers who had moved to war production centers tended to stay there, and returning servicemen tended to go to the areas of opportunity that had attracted their civilian brothers.

Between 1940 and 1950, the relatively greater growth in our population took place on the Atlantic and Pacific

Coasts and around the Great Lakes and Gulf of Mexico. On the other hand, population growth in the heartland of the continent was relatively moderate.<sup>1</sup> In this decade, Illinois had an increase of about 10 percent, somewhat less than its neighbors to the east, Ohio, Indiana, and Michigan, but substantially greater than Iowa and Missouri to the west.

Differences among the states in rate of growth were produced much more by differences in net migration than in natural increase (excess of births over deaths). Growth through natural increase during the forties ranged only from 8 percent to 25 percent among the states. Net migration, on the other hand, ranged from a decrease of 21 percent to a gain of 38 percent. To some extent states with high levels of living have had low fertility but have attracted a large volume of migration to man their expanding economies. The growth in Illinois through natural increase was 9 percent of the 1940 population as compared with 13 percent for the United States as a whole.

Some historical perspective on interstate migration can be obtained from the map, which shows estimated net internal migration for selected periods since 1910. Illinois has had a rather checkered history since it had net in-migration during the 1920's, the early years of World War II, and the postwar years. Its neighbors to the south and west, on the other hand, appear to have had persistent out-migration.

From 1950 to 1953, the pattern of state population changes has been very much like the pattern for 1940 to 1950.<sup>2</sup> In the Middle West, there are indications of some acceleration of growth in Kansas, Missouri, and Nebraska, a possible halting of growth in Iowa, and little or no change in Illinois, Indiana, and other states. For the country as a whole, the most striking increases in rate of growth were for Nevada, Arizona, Florida, and Delaware and the most striking decreases for Washington, Oregon, and West Virginia.

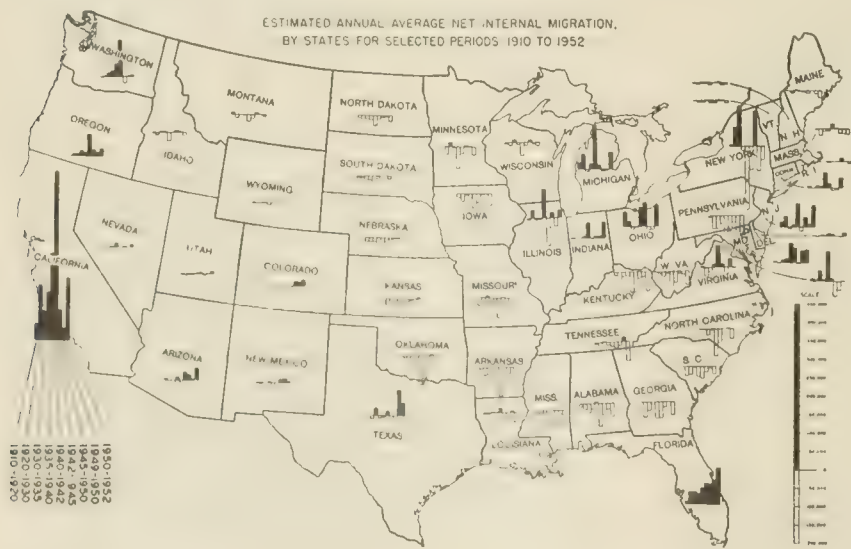
## Population Changes by Counties

Even while the country as a whole was increasing by 14.5 percent from 1940 to 1950, half of all the counties actually lost population! Even in the states that grew fastest, some counties had appreciable losses; and in the states that lost population, some counties had appreciable gains. In Illinois, slightly less than half the counties gained population, and 9 counties gained one-fifth or more over 1940.

The net effect of these different rates of change was a greater concen-

<sup>1</sup> See United States Bureau of the Census, *Current Population Reports*, Series P-25, No. 72, "Estimates of the Population of States: July 1, 1940 to 1949," May, 1953.

<sup>2</sup> United States Bureau of the Census, *Current Population Reports*, Series P-25, No. 97, "Estimates of the Population of Continental United States, by Regions, Divisions and States, July 1, 1950 to 1953," August, 1954.



Source: Bureau of the Census.



tration of population in a relatively small proportion of the counties. Metropolitan counties grew much faster than other counties. By 1950, considerably more than half of the population of the United States was living in a metropolitan area. The population of counties outside metropolitan areas increased by only 6.5 percent, and here the growth seemed to depend on the size of the principal urban place in the county. In general, the larger the urban place, the higher was the rate of growth. Many of the most rapidly growing counties contained a military installation, a large war production plant, or a large university. For example, the relatively rapid growth in the Rockford standard metropolitan area can be thus explained.

Counter to the general process of concentration of population is the suburbanization of metropolitan areas. Between 1940 and 1950, the inhabitants of central cities of the standard metropolitan areas increased by 14 percent, or more than twice the growth rate for the territory outside metropolitan areas. The outlying parts of the metropolitan areas—the suburbs—increased by 36 percent, however. Nearly half of the population increase of the entire country took place in the outlying parts of the metropolitan areas. Recent special censuses of satellite cities around Chicago, Los Angeles, and San Francisco, as well as other evidence, indicate that the rapid suburbanization is continuing. The proliferation of suburban shopping centers is apparent.

### Changes in Special Population Groups

The age groups that have increased most rapidly since 1940 have been at the extremes of the scale—the very young and the elderly. The baby boom that began in 1941 and has continued at an awe-inspiring level since 1946 has led to great increases in the number of children of preschool and elementary school ages. At the same time, because of increasing numbers of births in the last quarter of the nineteenth century and because of declines in mortality, the number of persons 65 years old and over has also been increasing rapidly. As these waves and troughs move through the age groups with the unfolding of time, the relative demands for many goods and services fluctuate considerably. For example, the number of marriages has fallen off in the last year or so and the kinds of products bought by newly married couples should be in less demand than formerly. Nonetheless, the 4 million babies born in 1954 set a new record, and those who produce and sell baby things should continue to enjoy a lush market.

In the heavy internal migration that has already been described, the different age-sex groups have had very unequal roles. Young adults from about 20 to 24 are the most migratory group. Unmarried girls in their late teens and early twenties are the most frequent migrants from farms as they are attracted in large numbers by jobs in factories and offices. The aged are the least migratory of the broad age groups. Persons employed in the professions are more migratory than those in any other broad occupational group. Migrants also have more education on the average than those at the same age level who do not move. Thus, continued out-migration may have even more effect on a community than the bare numbers would suggest.

On the other hand, migration can relieve population pressure in areas with high natural increases but relatively inadequate resources. One of the most striking population shifts of the 1940's was the heavy migration of Negroes from the South to the North and West

and from farms to cities. As a result, the Negro population of the Northeast and North Central States increased by roughly half and that of the West more than tripled, whereas the Southern Negro population remained almost stationary. The number of Negroes in Illinois increased by about two-thirds. The Negro population, which a few decades ago was concentrated on farms, is now just about as urbanized as the white population. This diffusion plus the narrowing of the racial gap in terms of education, skills, and income has attracted attention in recent years to the importance of the Negro market. Within the labor force, Negroes are much less concentrated among laborers, domestic servants, and other service workers than they were before the war and conversely are found to a far greater extent among operatives, craftsmen, and clerical and sales workers.

### Possible Future Developments

It is, of course, difficult to foresee future population changes with any degree of certainty. According to a recently published Census Bureau report,<sup>3</sup> population growth in Illinois from 1953 to 1965 should range from 13 to 16 percent, slightly less than the corresponding national average. Seven series of estimates were derived using two basic methods with a variety of assumptions within each basic method. The projections for Illinois are summarized in the accompanying table. "Series A and B" and "Series C" relate to the general level of fertility projected for the country as a whole, and the indicated time periods represent the assumed level of net migration.

PROJECTED POPULATION OF ILLINOIS  
1960 AND 1965

Method	Base period for migration	Series	Projected population (in thousands)	
			1960	1965
Component	1940-53	A and B	9,872	10,452
	1940-50	A and B	9,886	10,477
	1940-53	C	9,803	10,256
	1940-50	C	9,817	10,282
	1930-53	C	9,787	10,230
Ratio	.....	A and B	9,826	10,388
	.....	C	9,754	10,178

If these assumptions were to be borne out, Michigan would be the fastest growing state among the neighbors of Illinois, followed by Ohio and Indiana. Wisconsin's population might grow at about the same rate as that of Illinois, whereas Iowa and Missouri would lag somewhat behind. An interesting feature of the projections is the implication that by 1965, Texas would be a close contender for the distinction of being the fourth most populous state in the nation, despite the anticipated population increase in Illinois, estimated at 1.2 to 1.5 million.

From what is known of the causes underlying other kinds of spatial shifts, urbanization, migration from farms, concentration in metropolitan areas, and suburbanization may be expected to continue into the indefinite future. The farm population will continue to become more urbanized in its way of life, attitudes, and tastes and the national market will tend to be more standardized and homogeneous.

<sup>3</sup> United States Bureau of the Census, *Current Population Reports*, Series P-25, No. 110, "Illustrative Projections of the Population, By States: 1960 and 1965," February 20, 1955.

# LOCAL ILLINOIS DEVELOPMENTS

March was a month of rapidly rising business activity in Illinois, as both seasonal factors and general trends quickened the tempo of activity. Construction contracts awarded led the way with a spectacular gain of 135 percent over February, 1955, and 71 percent over March, 1954. Bank debits recorded a gain of almost 30 percent over February and remained about 6 percent ahead of year-earlier figures, as they have for the past five months. The earlier occurrence of Easter strengthened March sales at department stores in the State; they advanced 25 percent from February and were 13 percent greater than in March of last year. Life insurance sales and petroleum production also advanced substantially during the month, 27 and 17 percent respectively.

## March Employment Levels

Private nonfarm employment remained slightly under year-ago levels in March, although the margin narrowed considerably. A seasonal rise brought the total to 2,910,700 persons, just below the March, 1954, figure, but still 4.6 percent below 1953.

Only two of the major industry classifications shown in the chart below reflect the pattern of recession and recovery ascribed to business activity throughout the nation. These are durable goods manufacturing, which has recovered slightly from its March, 1954, levels, and construction, which now stands almost even with 1953.

Employment in half of the industries registered a continual decline in the three years shown in the chart. These include two of the largest groups, trade and non-durable goods manufacturing, the 1954-55 decline in the latter being enough to offset the rise in durable manufacturing. Transportation and public utilities reported a continued drop for these years, transportation and communications accounting for the decline. Mining also continues to employ fewer persons in Illinois, reflecting a long secular downtrend.

## Cattle on Feed

On April 1, 555,000 head of cattle and calves were on grain feed in Illinois, 11 percent more than a year earlier. The gain was entirely in the number on feed for three

to six months, with those on feed less than three months and more than six both showing declines. Although there were the same proportions of the heavier weights as in 1954, there was a slightly larger proportion of medium-weight cattle (600 to 900 pounds) and a correspondingly smaller proportion of the lighter weights.

Marketing intentions point to beef aplenty for shoppers. Almost 40 percent of the cattle on feed at the beginning of April were scheduled for market prior to July 1. This would amount to 211,000 head, 20 percent more than in the same three months of 1954.

## State Finances

Revenues and expenditures of state governments, as reported by the Census Bureau in the *Summary of State Government Finances in 1954*, continued to rise last year, and Illinois was no exception. Increases were slightly smaller in this State than in all states combined, amounting to 4 percent for revenues and 10 percent for expenditures.

The changes in the various segments of revenue and expense were far from uniform in Illinois. Revenue from insurance trust contributions and investment income declined 7 percent, whereas miscellaneous fees, fines, and forfeits amounted to 20 percent more in 1954 than in 1953. Taxes, the major source of funds, increased 6 percent.

The variation was even greater in expenditures. Assistance and subsidies were 20 percent smaller, whereas payments of insurance benefits were almost 75 percent larger than in 1953, largely because of the increasing amount of unemployment compensation. The expenses of current operations, capital outlays, and intergovernment payments were all up 8 to 10 percent.

Interest charges declined 7 percent in 1954 as Illinois, in contrast to the 48 states as a whole, continued to decrease the outstanding debt. Debt repayment was 14 times as great as new borrowing.

## Industrial Development in Central Illinois

Manufacturer's plans indicate 1955 will be a year of industrial expansion in central Illinois. Several plants will either be under construction during the year or ready to begin production.

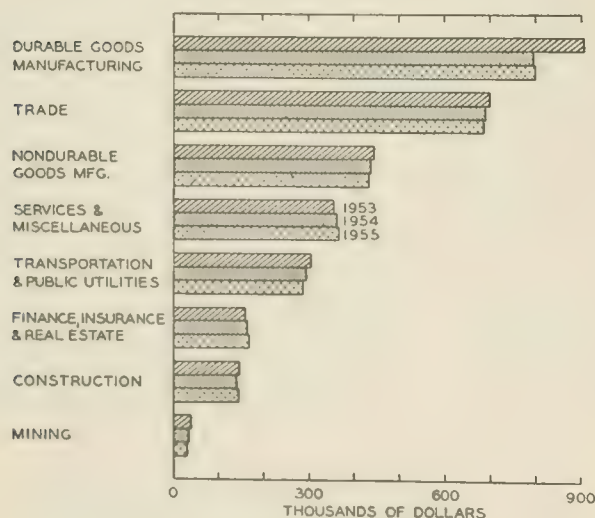
One such plant is the General Purpose Control Division of the General Electric Company at Bloomington. The \$7-million plant was begun in 1953 and is nearing completion. About 700 persons are currently employed; later this year it is expected to employ 1,200.

Danville also anticipates further growth, with at least two new concerns moving into production this year. A new factory employing about 600 persons to produce refrigeration condensers and compressors has almost been completed there by the Tecumseh Manufacturing Company, of Tecumseh, Michigan. By August, Allied Chemical's Genetron propellant plant is expected to open.

The Caterpillar Tractor Company will soon complete its new plant at Decatur, employing as many as 2,500 persons at capacity. At present only 250 are working.

Two firms are planning to build in Mattoon during 1955. Road paving and construction equipment will be produced by the Blaw-Knox Company. Initial employment has been announced as 250. The American Metal Hose Branch of the American Brass Company also intends to construct a factory in Mattoon. The plant, costing about \$2.5 million to build, will manufacture flexible metal hose and tubing and related products.

PRIVATE NONFARM EMPLOYMENT  
March, 1953-55



Source: Illinois State Employment Service.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

March, 1955

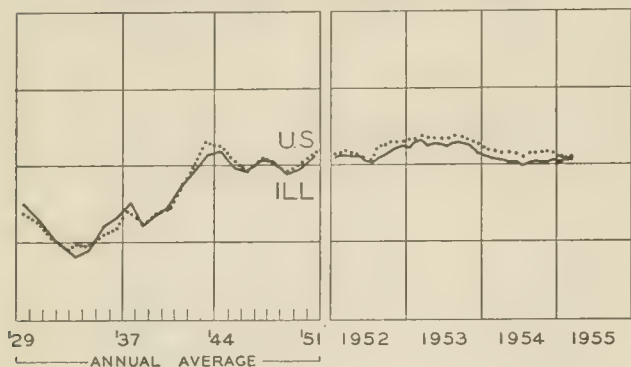
		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>5</sup> (000,000)	Postal Receipts <sup>6</sup> (000)
<b>ILLINOIS</b>		\$37,893 <sup>a</sup>	1,020,014 <sup>a</sup>	\$491,985 <sup>a</sup>		\$15,850 <sup>a</sup>	\$16,073 <sup>a</sup>
Percentage change from	{ Feb., 1955..	+70.3	-0.2	-3.0	+25	+29.4	+20.9
	{ Mar., 1954..	+77.1	+5.4	+2.4	+13	+5.6	+7.8
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b>		\$26,285	787,859	\$364,035		\$14,624	\$14,098
Percentage change from	{ Feb., 1955..	+69.5	+0.9	-3.0	+24	+30.2	+21.8
	{ Mar., 1954..	+76.7	+4.2	+1.6	+13	+5.6	+8.5
<b>Aurora</b>		\$ 359	n.a.	\$ 6,547		\$ 53	\$ 134
Percentage change from	{ Feb., 1955..	+23.8		-6.6	+40	+17.1	+8.5
	{ Mar., 1954..	+22.1		-1.9	+12	+5.8	+12.3
<b>Elgin</b>		\$ 390	n.a.	\$ 5,103		\$ 36	\$ 102
Percentage change from	{ Feb., 1955..	+103.1		-0.9	+27	+20.1	+6.9
	{ Mar., 1954..	+24.2		+8.7	+8	+17.7	+1.9
<b>Joliet</b>		\$2,479	n.a.	\$ 9,881		\$ 71	\$ 100
Percentage change from	{ Feb., 1955..	+868.4		-6.8	+32	+21.4	+13.9
	{ Mar., 1954..	+448.5		-3.0	+32	+18.0	-2.2
<b>Kankakee</b>		\$ 176	n.a.	\$ 4,827		n.a.	\$ 46
Percentage change from	{ Feb., 1955..	+24.8		-3.7	n.a.		+28.3
	{ Mar., 1954..	-33.8		+3.0			+31.1
<b>Rock Island-Moline</b>		\$ 934	22,215	\$ 8,438		\$ 86 <sup>b</sup>	\$ 152
Percentage change from	{ Feb., 1955..	+74.9	-1.3	-3.9	n.a.	+17.4	+4.7
	{ Mar., 1954..	+41.1	+11.1	+4.8		+7.5	-5.3
<b>Rockford</b>		\$2,606	35,088	\$15,383		\$ 166	\$ 254
Percentage change from	{ Feb., 1955..	+183.9	-7.9	-4.8	+32 <sup>c</sup>	+25.1	+26.9
	{ Mar., 1954..	+204.1	+14.7	+8.3	+6 <sup>c</sup>	+9.9	+1.0
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b>		\$ 564	7,207	\$ 4,816		\$ 64	\$ 108
Percentage change from	{ Feb., 1955..	+115.3	-4.7	+0.2	n.a.	+29.8	+27.1
	{ Mar., 1954..	-33.2	+6.3	+3.0		-2.5	-2.9
<b>Champaign-Urbana</b>		\$ 493	9,557	\$ 6,724		\$ 54	\$ 100
Percentage change from	{ Feb., 1955..	+111.6	-4.2	+0.9	n.a.	+8.3	+16.1
	{ Mar., 1954..	+175.4	+13.5	+6.2		-0.7	+2.1
<b>Danville</b>		\$ 180	7,687	\$ 5,419		\$ 48	\$ 60
Percentage change from	{ Feb., 1955..	+239.6	-23.6	+1.5	+28	+21.5	+16.5
	{ Mar., 1954..	+20.0	-13.6	+6.2	+19	+3.6	-6.6
<b>Decatur</b>		\$ 769	27,061	\$ 9,260		\$ 104	\$ 131
Percentage change from	{ Feb., 1955..	+26.1	-3.4	-1.8	+30 <sup>c</sup>	+22.5	+23.7
	{ Mar., 1954..	+133.0	+19.6	+5.1	+3 <sup>c</sup>	+6.3	+5.6
<b>Galesburg</b>		\$ 318	7,491	\$ 3,790		n.a.	\$ 38
Percentage change from	{ Feb., 1955..	+167.2	-1.3	+1.6	n.a.		+12.3
	{ Mar., 1954..	+93.9	+8.1	+5.1			+1.1
<b>Peoria</b>		\$ 751	47,816 <sup>c</sup>	\$15,142		\$ 211	\$ 240
Percentage change from	{ Feb., 1955..	-61.7	-3.7	-2.1	+23 <sup>c</sup>	+20.7	+11.0
	{ Mar., 1954..	+10.6	+9.6	+7.5	+20 <sup>c</sup>	+8.0	+1.7
<b>Quincy</b>		\$ 328	7,689	\$ 4,283		\$ 40	\$ 77
Percentage change from	{ Feb., 1955..	+19.7	-13.1	-3.2	+23	+18.8	+20.2
	{ Mar., 1954..	+27.1	+9.3	+7.9	+7	+5.2	+0.6
<b>Springfield</b>		\$ 378	29,982 <sup>c</sup>	\$11,464		\$ 110	\$ 282
Percentage change from	{ Feb., 1955..	+77.5	+3.8	-3.9	n.a.	+21.9	+6.6
	{ Mar., 1954..	+31.3	+10.7	+1.7		+5.3	+13.3
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b>		\$ 378	11,925	\$ 8,266		\$ 141	\$ 73
Percentage change from	{ Feb., 1955..	+18.9	+2.2	-3.4	n.a.	+21.3	+28.9
	{ Mar., 1954..	-9.6	-0.5	+5.1		-2.1	+5.9
<b>Alton</b>		\$ 108	12,454	\$ 4,504		\$ 43	\$ 33
Percentage change from	{ Feb., 1955..	-68.5	+6.7	-0.5	n.a.	+27.4	+15.1
	{ Mar., 1954..	-48.3	+7.0	+4.1		+3.5	-6.7
<b>Belleville</b>		\$ 397	5,984	\$ 4,105		n.a.	\$ 45
Percentage change from	{ Feb., 1955..	+1,626.1	-4.1	-1.8	n.a.		+10.4
	{ Mar., 1954..	+156.1	+1.7	+7.8			+6.6

<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for February, 1955, the most recent available. Comparisons relate to January, 1955, and February, 1954. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

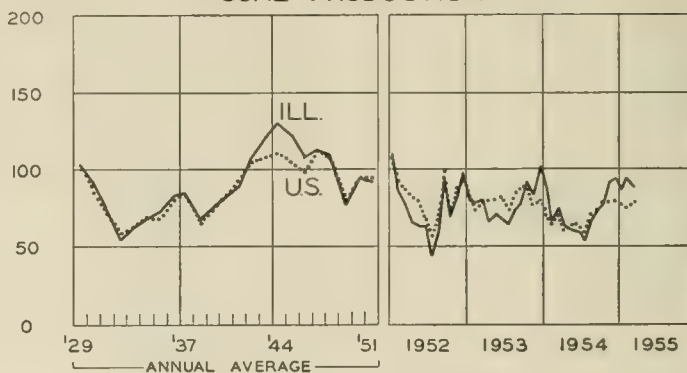
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

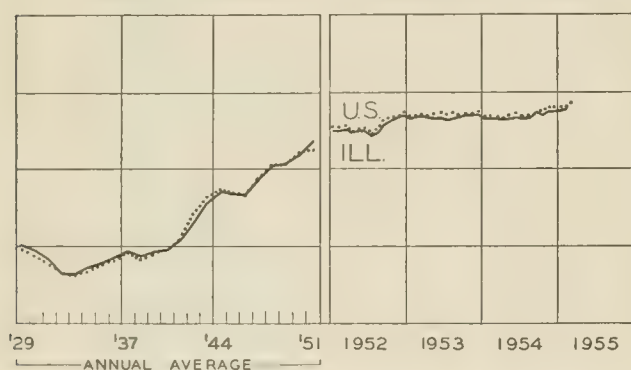
EMPLOYMENT - MANUFACTURING



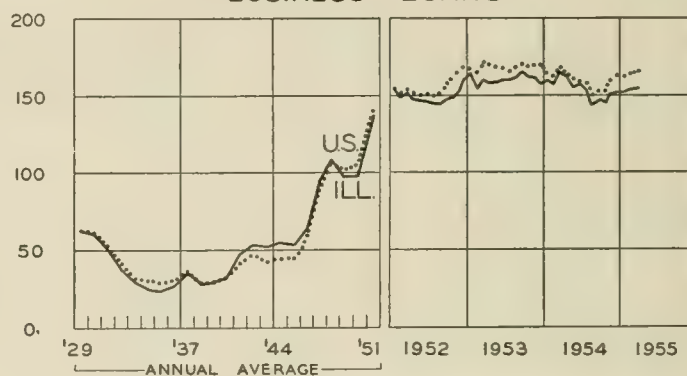
COAL PRODUCTION



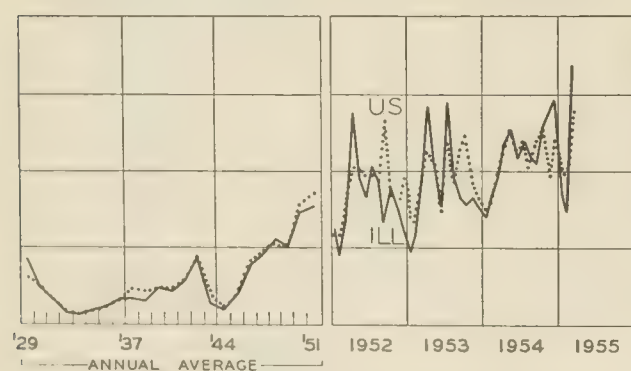
AVG. WKLY. EARNINGS — MANUFACTURING



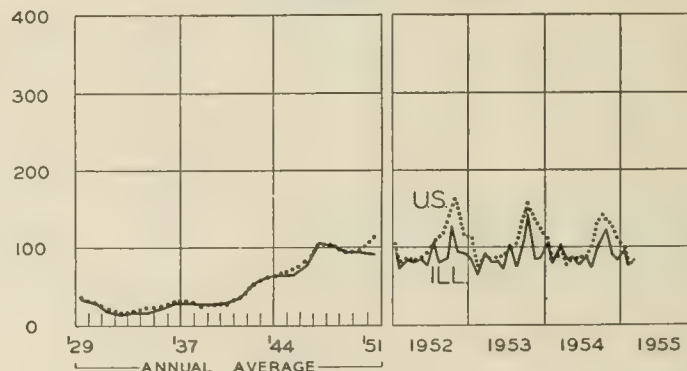
BUSINESS LOANS



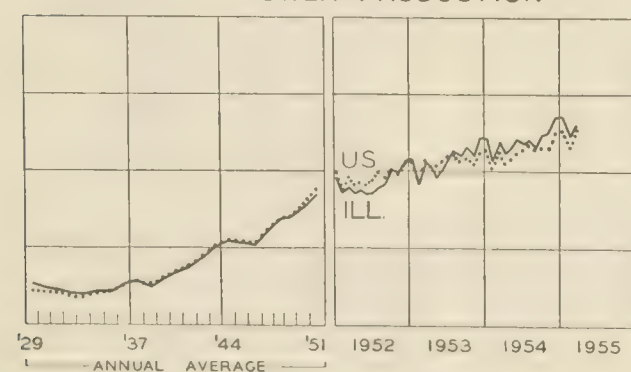
CONSTRUCTION CONTRACTS AWARDED



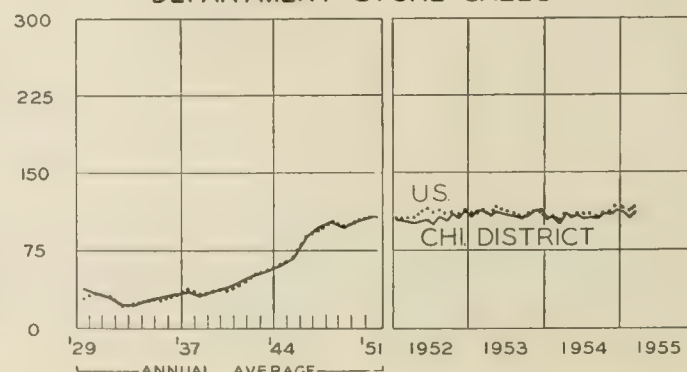
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME XII

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NUMBER 6

## HIGHLIGHTS OF BUSINESS IN MAY

Further gains in the business recovery were evidenced in May. Industrial production set a new high, after seasonal adjustment, exceeding by one point the previous peak of 137 percent of the 1947-49 average set in May and July, 1953. One factor in this rise was an increase in steel production to the highest monthly total on record — 10.3 million tons. Steel production in June is expected to continue at much the same rate as in May, especially with the quick settlement of the auto dispute.

Reflecting the increased pace of industrial activity, soft coal production at the end of the month reached the highest level in 19 months and railway freight traffic was the heaviest since October, 1953. Consumer demand also remained at high levels, with auto sales booming and department store sales in May averaging more than 8 percent above those in May of last year.

### Further Increases in Employment

Another substantial improvement in the employment situation occurred in May. Total employment rose by more than 1 million to a record 62.7 million for the month. At the same time, unemployment dropped by nearly a half million — the largest month-to-month decline in 14 years — to 2.5 million.

Largely accounting for the improved picture were sharp seasonal gains in construction and farm work and a contraseasonal rise in manufacturing employment. Over 16.3 million people were employed in manufacturing in May, half a million more than in May of 1954.

### New Construction Advances

Building continued to boom during May. Expenditures for new construction rose seasonally to \$3.5 billion, a new high for the month and 13 percent above last May.

Large gains were recorded for most types of private building over May, 1954, with total private building increasing 18 percent. Private homebuilding expenditures were 23 percent above the level of a year ago with substantial advances also occurring in commercial, religious, and educational building. Public construction activity, however, was only slightly above last May.

A possible cessation of the rise in homebuilding was indicated by recent data on contract awards. The value of contracts awarded for residential building in May in the 37 states east of the Rockies declined 6 percent from the April figure, according to the F. W. Dodge Corpora-

tion. However, the May figure was still 23 percent over that of a year ago.

### Capital Expenditures Rise

Capital expenditures promise to exert a strong sustaining influence in the current business picture if firms adhere to plans reported in April and May to the Securities and Exchange Commission and the United States Department of Commerce. On the basis of these reports, outlays for new plant and equipment by American business in the second and third quarters of this year are likely to rise to \$27.9 billion and \$28.8 billion respectively at seasonally adjusted annual rates, well above the first quarter rate of \$25.6 billion. Projected expenditures in the third quarter, if realized, will equal the peak rate of expenditures attained in the third quarter of 1953.

Increased outlays were scheduled by all major industries. The largest relative increases from early 1955 spending rates are anticipated by steel, nonferrous metals, transportation equipment (including autos), petroleum, chemical, and paper companies. Railroad, public utility, and mining companies also plan large increases, 15 to 20 percent more in the third quarter than in the first quarter (on a seasonally adjusted basis).

### Fulbright Committee Report

An increase in speculation since late 1954, bringing stock prices to dangerously high levels, was charged in the majority report of the Senate Banking Committee on its recent stock market investigation. The report of the minority (Republican) members challenged this view, asserting that current high levels of stock prices are the result of such "real factors" as higher incomes and increased industrial activity rather than of speculation.

Both reports agreed, however, that various aspects of security markets deserved further study, specifically the over-the-counter markets, "penny" stocks, and the sale of foreign (mainly Canadian) stocks in this country.

The first outcome of the investigation was a bill introduced in May by Senator Fulbright calling for increased regulation of unlisted securities by the Securities and Exchange Commission. Among other things, the bill would require such companies to file regular financial statements with the SEC and would subject trading in such stocks to Federal Reserve margin requirements (which do not apply at present to such transactions).

# ILLINOIS BUSINESS REVIEW

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## Wages and Prices

Economic views continue in the pattern molded by previous postwar ups and downs in the plateau of high prosperity. Each new upsurge or setback takes on the character of a massive fluctuation while it is under way, only to be seen as a minor irregularity in retrospect.

The current upsurge—like the previous ones terminating in early 1951 and mid-1953—has brought on new heights of optimism. The extreme to which sentiment has swung is nowhere better illustrated than in fears concerning the Ford settlement with the auto workers. The wage contract, it is said, foreshadows inflation.

### Recent Stability in Prices

For about three years an unprecedented stability in price levels has prevailed. Since June of 1952 the BLS consumer price index has not been more than a point away from its present level in either direction. During this entire period the combined index has thus been confined to a range of little more than 1 percent. Moderate declines in prices of nondurable goods, such as food and apparel, have been offset by continuing advances in such service items as rent, gas, electricity, and medical care.

During the same period the wholesale price index has been confined to a similarly narrow range. By the end of 1952 wholesale prices had completed the letdown from the Korean excesses of early 1951. Since then, the index has remained almost stationary. In the last few months, the strong recovery movement in production and income has resulted in only moderate upward tendencies. Increases have been largely confined to such primary products as building materials, metals, and rubber. In many cases, the prices of the finished products utilizing such materials were held steady despite the rise in costs.

This lack of price response as the economy generally has pushed up into new high ground is a development of more than a little significance. It indicates that industry is capable of turning out everything demanded by consumers, business, and government at existing prices. Many producers consider their margins adequate, and competition prevents others from widening them through price increases. For the latter, putting prices up means losing part of their market.

The situation is typical of the late stages of a great postwar boom. After a time facilities are built up and efficiency improved to the point where higher prices are no longer essential to increased production. As long as

activity continues high, there is no incentive to cut prices substantially, but competition for larger shares of the market gets tougher right up to the breaking point.

### Automobile Prices and Wages

The automobile settlement will obviously increase costs and provides at least some incentive to cover the cost increases through higher prices. This incentive will be intensified if prices of materials are also increased. It is generally understood that the steel industry plans to pass on any wage increases granted in its own settlement. Estimates of the steel price increase to be expected in the summer center around \$5 a ton. The issue on auto prices will thus become acute with the introduction of the 1956 models.

At that time, the price leaders in the auto industry will be faced with a real dilemma. If they do not raise prices, profits will be squeezed by rising costs as well as by falling volume. If they do, they may be blamed for precipitating or intensifying a decline in sales that is likely to occur anyway, for entirely unrelated reasons. The industry faced a similar situation in bringing out the 1938 models; it raised prices and was criticized for the drastic decline that followed.

The squeeze will be even more severe for the independents. They can hardly afford to absorb the cost increases without raising prices, but perhaps even less can they afford to raise prices in the absence of such action on the part of General Motors and Ford. Their market shares have already been drastically reduced by the engineering efforts, the automatic facilities, and the hard-hitting sales organizations of the latter. In the new model year, the independents will probably face another turn of the screw, tightening the competitive situation that led to the recent mergers. Their salvation may well depend upon their ability to achieve cost savings under their new organizational arrangements.

As Ford executives stated in announcing the settlement, the decision on auto prices is yet to be made. All that can definitely be said is that the tie between wages and prices is not so close as has been commonly assumed. The effects of rising wages on costs are moderated by rising man-hour productivity; and even if costs rise, the state of the market will condition the ability of the industry to pass the increases on to consumers.

### How Much Inflation?

There remains the question of spreading effects in other parts of the economy. If wage increases are granted widely through industry, what will be the effect on overall price levels? It appears plausible to say that the wage increases add fuel to the inflationary fire. The trouble with this proposition lies in its implications—first, that there is an inflationary fire, and second, that the wage increases will make a significant difference in the price trend.

As to the first, the fact is that no danger of real inflation threatens this country except for the possibility of all-out war. Our economy has just demonstrated its ability to carry a heavy military program and an investment boom stimulated by accelerated amortization without imposing any substantial restrictions on consumption. That investment boom has now expanded capacity to the point where an even heavier load can be carried without strain; and the labor force, too, is not so close to its capacity as in earlier postwar years.

(Continued on page 6)



## **THE HAVEN OF THE WAYFARER**

The first hotels in this country were seaport inns and converted farmhouses located along stagecoach routes. The Jamestown Inn, first of its kind, was constructed in Virginia in 1607. Business was conducted on the "American plan" — including both lodging and meals — with one dollar per day considered as a "good round price."

With the growth of the railroads, hotels were built near the stations, and in keeping pace with the development of travel they were forced to expand, not only in size, but in services offered as well.

### **Era of Overexpansion**

The increase in automobile travel and a nationwide construction boom brought forth an unprecedented expansion in the hotel industry between 1916 and 1930. In many cases, construction was based on attempts to boost civic pride with little consideration being given to future markets or to sound financial policy. With increased construction, the occupancy rate (the percentage of rooms occupied) dropped from a high of 85 percent in 1920 to 69 percent by 1925 and then held steady until 1929.

Few industries suffered more severely than the hotel business during the depression, when high fixed charges could not be met. The occupancy rate dropped from 70 percent on October 29, 1929, to 51 percent in 1932, spelling disaster for the industry and throwing 81 percent of the nation's hotels into the hands of receivers.

Part of the difficulty lay in misgauging the character of the market. With travel shifting rapidly to the automobile, the motel made its bid for prominence. Motels first appeared around 1925 and by 1939 numbered some 13,000. Stimulated by the increase in automobile travel and the development of highways, and not affected by the hotels' major problems (parking, high costs, and labor difficulties), the motel was a welcome innovation for the traveler but a thorn in the side for the hotels.

The hotel business began to show signs of an upward trend by 1936, but recovery was slow. By 1939, occupancy had recovered to only 63 percent, but the wartime boom caused a sharp gain in sales, with the peak being reached in 1946 when room occupancy reached 92 percent. However, the trend of occupancy has been steadily downward since then, and by 1954 had receded to 73 percent.

Since 1939, inflation has pushed current hotel rates up as much as 40 to 50 percent and at the same time has boosted hotel operating costs between 115 and 120 percent. Although hotel occupancy in 1954 reached its lowest level in 13 years, the rise in average room rates and the popularity of dining and other services offered by hotels acted to maintain profits at a fairly constant level.

### **The Industry Today**

Hotels, now the seventh largest industry in the United States, number over 15,300, provide over 1,400,000 rooms which can accommodate more than two million guests each night, furnish dining accommodations for over one

million persons and serve five million meals each day. In addition, they employ more than 600,000 people and spend over a billion dollars annually in salaries and wages.

As an industry, hotels have developed into four well-marked categories: (1) the deluxe type hotel, usually located in a large city and characterized by opulent surroundings and prices of equal magnificence; (2) the first- or medium-class transient hotel, situated in cities and towns located near well-traveled routes; (3) the country and resort hotel, located in vacation areas and throughout the country; and (4) the residential or apartment-type hotel which caters to the permanent resident.

The major part of hotel income is derived from room sales, but in recent years other factors have become increasingly important. Food and beverages are becoming more significant; they currently account for 46 percent of the hotel income as compared with 25 percent during the 1920's. In fact, many hotels today are in the black only because of good food sales.

### **Hotels in Illinois**

Prior to 1800, the first record of anything resembling an inn in Illinois was a 60-foot lodging for "voyagers and Indians" built adjoining the mansion of John Kinzie in Chicago. Among the earliest hotels were the Hunter House in Alton, built in 1819, and the Rawling's House in Shawneetown, constructed about the same time.

From the 1850's, hotels in Illinois suffered from a shift in business as railroads were built and new highways constructed. As a result, the hotels moved into the major cities. Between 1916 and 1930, however, the hotel industry expanded by leaps and bounds. This period saw the construction of such hotels as the Stevens — the largest hotel in the world — the Ambassador, Bismarck, Drake, Morrison, and Shoreland hotels in Chicago, the Pere Marquette of Peoria — largest hotel in Illinois outside of Chicago — the Custer in Galesburg, the Abraham Lincoln of Springfield, and many others.

Today, Illinois has more than 1,500 hotels and can boast of fourth place among the states in the nation's hotel industry. Chicago, the "convention center of the United States," has over 2,000 conventions scheduled for 1955, and is, in addition, striving to compete for her share of the \$9 billion expected to be spent for recreational travel this year.

The outlook for the industry as a whole is not entirely bright. Labor organization has caused some readjustment of the irregular hours and low pay, but it is difficult to get and keep help. Other industries can reduce employment when business is down, but hotels must keep at least 80 percent of their normal payroll at all times.

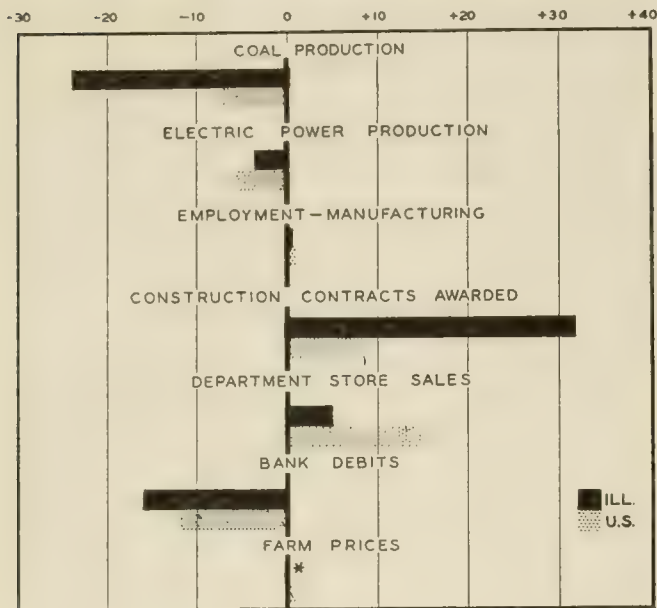
As long as business continues at its present high level and industry supplies its traveling representatives with lucrative expense accounts, the hotel people may be justified in their present optimistic outlook. The shift in market shares toward the motels may be nearing an end, but any decline in the total market will probably hit the more expensive hotel traffic harder.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes March, 1955, to April, 1955



\* No change from previous month.

## ILLINOIS BUSINESS INDEXES

Item	April 1955 (1947-49 = 100)	Percentage Change from	
		Mar. 1955	Apr. 1954
Electric power <sup>1</sup> .....	188.6	-3.4	+11.8
Coal production <sup>2</sup> .....	65.1	-24.0	+7.5
Employment—manufacturing <sup>3</sup> .....	103.6	+0.5	+1.4
Weekly earnings—manufacturing <sup>3</sup> .....	140.5 <sup>a</sup>	+1.0	+6.6
Dept. store sales in Chicago <sup>4</sup> .....	110.0 <sup>b</sup>	+2.8	+4.8
Consumer prices in Chicago <sup>5</sup> .....	116.9	-0.1	+0.3
Construction contracts awarded <sup>6</sup> .....	441.2	+32.2	+89.8
Bank debits <sup>7</sup> .....	153.0	-15.6	+9.2
Farm prices <sup>8</sup> .....	83.0 <sup>c</sup>	0.0	-14.4
Life insurance sales (ordinary) <sup>9</sup> .....	192.7	-9.4	+0.5
Petroleum production <sup>10</sup> .....	119.5	-0.8	+20.1

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.

<sup>a</sup> March data; comparisons relate to February, 1955, and March, 1954. <sup>b</sup> Seasonally adjusted. <sup>c</sup> Revised series.

## UNITED STATES MONTHLY INDEXES

Item	April 1955	Percentage Change from	
		Mar. 1955	Apr. 1954
	Annual rate in billion \$		
Personal income <sup>1</sup> . . . . .	295.6 <sup>a</sup>	+ 0.3	+ 3.9
Manufacturing <sup>1</sup> . . . . .			
Sales . . . . .	313.2 <sup>a</sup>	+ 0.4	+ 7.0
Inventories . . . . .	43.3 <sup>a, b</sup>	0.0	- 4.2
New construction activity <sup>1</sup> . . . . .			
Private residential . . . . .	15.5	+10.9	+32.0
Private nonresidential . . . . .	12.5	+ 3.9	+10.3
Total public . . . . .	10.6	+16.4	0.0
Foreign trade <sup>1</sup> . . . . .			
Merchandise exports . . . . .	16.1 <sup>c</sup>	+ 8.9	+19.1
Merchandise imports . . . . .	12.2 <sup>c</sup>	+19.9	+18.1
Excess of exports . . . . .	3.9 <sup>c</sup>	-15.5	+22.3
Consumer credit outstanding <sup>2</sup> . . . . .			
Total credit . . . . .	30.7 <sup>b</sup>	+ 2.4	+ 9.1
Installment credit . . . . .	23.5 <sup>b</sup>	+ 2.3	+ 9.7
Business loans <sup>2</sup> . . . . .	22.5 <sup>b</sup>	- 0.7	+ 1.7
Cash farm income <sup>3</sup> . . . . .	22.8	+ 0.1	- 0.1
	Indexes (1947-49 = 100)		
Industrial production <sup>2</sup> . . . . .			
Combined index . . . . .	136 <sup>a</sup>	+ 0.7	+10.6
Durable manufactures . . . . .	151 <sup>a</sup>	+ 2.0	+12.7
Nondurable manufactures . . . . .	124 <sup>a</sup>	+ 0.8	+ 7.8
Minerals . . . . .	121 <sup>a</sup>	- 0.8	+11.0
Manufacturing employment <sup>4</sup> . . . . .			
Production workers . . . . .	105 <sup>a</sup>	+ 0.9	+ 2.1
Factory worker earnings <sup>4</sup> . . . . .			
Average hours worked . . . . .	101	- 1.2	+ 3.1
Average hourly earnings . . . . .	140	+ 0.5	+ 3.3
Average weekly earnings . . . . .	141	- 0.7	+ 6.5
Construction contracts awarded <sup>5</sup> . . . . .	303	+ 8.8	+37.2
Department store sales <sup>2</sup> . . . . .	119 <sup>a</sup>	+ 5.3	+ 7.2
Consumers' price index <sup>4</sup> . . . . .	114	- 0.1	- 0.3
Wholesale prices <sup>4</sup> . . . . .			
All commodities . . . . .	111	+ 0.5	- 0.5
Farm products . . . . .	94	+ 2.3	- 5.2
Foods . . . . .	103	+ 0.9	- 3.2
Other . . . . .	116	+ 0.1	+ 1.0
Farm prices <sup>3</sup> . . . . .			
Received by farmers . . . . .	91	+ 1.1	- 4.2
Paid by farmers . . . . .	114	0.0	+ 0.9
Parity ratio . . . . .	87 <sup>d</sup>	+ 1.2	- 4.4

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.

<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for March, 1955; comparisons relate to February, 1955, and March, 1954. <sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1955					1954
	May 21	May 14	May 7	Apr. 30	Apr. 23	May 22
Production:						
Bituminous coal (daily avg.).....	thous. of short tons. 1,542	1,478	1,448	1,433	1,429	1,200
Electric power by utilities.....	mil. of kw-hr. 9,730	9,673	9,586	9,699	9,697	8,373
Motor vehicles (Wards).....	number in thous. 208	208	202	217	212	149
Petroleum (daily avg.).....	thous. bbl. 6,676	6,681	6,688	6,836	6,832	6,435
Steel.....	1947-49 = 100. 136	136	135	134	133	99
Freight carloadings.....	thous. of cars. 774	757	741	730	706	682
Department store sales.....	1947-49 = 100. 115	108	134	120	112	106
Commodity prices, wholesale:						
All commodities.....	1947-49 = 100. 110.3	110.4	110.4	110.4	110.3	110.9 <sup>a</sup>
Other than farm products and foods.....	1947-49 = 100. 115.7	115.7	115.7	115.8	115.8	114.5 <sup>a</sup>
22 commodities.....	1947-49 = 100. 89.3	89.3	89.2	89.8	90.4	93.2
Finance:						
Business loans.....	mil. of dol. 22,737	22,721	22,607	22,545	22,530	21,975
Failures, industrial and commercial.....	number. 226	233	237	212	204	248

Source: Survey of Current Business, Weekly Supplements.

<sup>a</sup> Monthly index for May, 1954.



# RECENT ECONOMIC CHANGES

## New Common Stock Issues Near Peak

Transactions in the capital market during the first quarter continued at the high levels attained in other recent quarters. The volume of new stocks and bonds issued by corporations amounted to \$2.6 billion, about the same as in the last three quarters of 1954 and \$900 million higher than in the first quarter of 1954.

Swelled by new issues offered by General Motors and General Motors Acceptance Corporation, amounting to \$330 million and \$300 million respectively, common stock financing reached its highest quarterly level since 1929. Common stock offerings totaled \$760 million in the first quarter, 75 percent greater than in the fourth quarter and more than double its year-ago level. New issues of preferred stock were down somewhat from the fourth quarter but, at \$115 million, were unchanged from the first quarter of 1954. Debt financing of \$1.7 billion was less than in the previous three-month period but exceeded first quarter 1954 by \$400 million.

Manufacturing companies were the largest single group of stock and bond issuers in the first quarter. Their new issues of \$900 million accounted for 35 percent of total offerings. Issues of financial and real estate companies amounted to \$630 million, and made up nearly 25 percent of total issues. This was four times the offerings of this group in the first quarter of 1954, reflecting renewed expansion in installment credit and financing by sales finance companies, particularly GMAC, this year.

## Railroad Traffic

Railroad business, in response to the general recovery in production and trade, has picked up considerably in recent months. The volume of freight carloadings has exceeded the depressed level of 1954 each month this year and in recent months has been near 1953's high rates (see

chart). For the first five months of 1955 the gain in loadings over the same period of last year amounted to about 10 percent.

The railroads' net income has increased substantially more than traffic volume and revenues this year. Net income of the major roads in the first four months of 1954 totaled \$243 million, 85 percent higher than a year ago. Only part of the increase was due to increased revenues, with much of the remainder reflecting strengthened economy programs put into effect by many roads and lower tax liabilities due to rapid amortization of some facilities.

## Gross Product Matches Record

Paced by peak-level construction activity, some inventory accumulation, and a resurgence in personal consumption expenditures, gross national product recovered sharply in the first quarter of 1955 to equal the record-high second quarter of 1953. Total output was up by \$8 billion during the quarter to a seasonally adjusted annual rate of \$370 billion.

### GROSS NATIONAL PRODUCT OR EXPENDITURE (Seasonally adjusted, billions of dollars at annual rates)

	1st Qtr. 1955	4th Qtr. 1954	1st Qtr. 1954
Gross national product.....	370.0	362.0	355.8
Personal consumption.....	242.0	237.7	230.5
Durable goods.....	33.4	29.9	28.0
Nondurable goods.....	122.1	122.1	118.8
Services.....	86.5	85.7	83.6
Domestic investment.....	53.3	49.5	44.5
New construction.....	30.8	29.1	26.0
Producers' durable equipment	21.1	21.7	22.7
Change in business inventories	1.3	-1.3	-4.2
Nonfarm inventories only..	1.2	-1.6	-4.2
Foreign investment.....	.0	.8	-1.1
Government purchases.....	74.7	74.1	81.9

### INCOME AND SAVINGS

National income.....	n.a.	302.6	298.9
Personal income.....	292.7	289.0	285.1
Disposable personal income.....	260.6	255.9	252.3
Personal saving.....	18.7	18.2	21.8

Personal consumption expenditures accounted for more than half of the first quarter rise in GNP. Outlays for durable goods were up by \$3.5 billion, reflecting mainly the record volume of new car purchases early this year. Expenditures for nondurables leveled off at an annual rate of \$122.1 billion during the quarter. Expenditures for services continued to advance at about the same rate as in the four quarters of the preceding year.

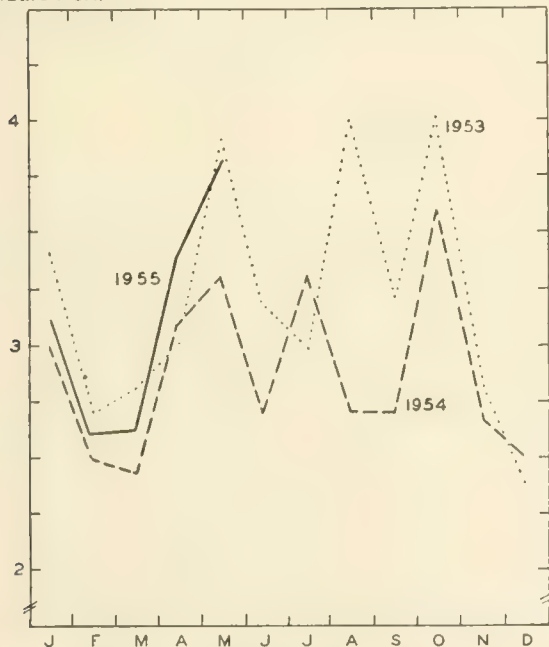
Virtually all of the remaining first quarter increase in total expenditures centered in private investment. Construction expenditures rose by \$1.7 billion on the strength of record-level residential building. Business spending for new plant and equipment changed little during the quarter, but the more-than-year-long inventory liquidation was halted, and accumulation amounting to an annual rate of \$1.3 billion took place. Attempts by auto dealers to replenish their stocks accounted for much of this accumulation.

## High-Level Liquid Saving

Individuals added \$11.7 billion to their financial assets in 1954 bringing their net equity in liquid forms to \$590 billion. The advance was about the same as in the previous year although the rate of accumulation of specific forms of liquid assets differed considerably between the two

### FREIGHT CARLOADINGS

MILLION CARS



Source: Association of American Railroads.

years. In 1953 virtually nothing was added to individuals' demand deposits, whereas this highly liquid form of saving increased by \$2.7 billion in 1954. Time deposits also increased last year — by \$4.4 billion compared with \$4.2 billion in 1953. Savings and loan associations and life insurance companies continued to attract new saving at a rapid rate, as individuals added \$4.5 billion to their financial assets in the form of savings and loan certificates and \$5.3 billion to their equity in private life insurance.

A substantial reduction occurred in new investment in securities. Somewhat more was added to the volume of outstanding savings bonds in 1954 than in 1953, and equity in corporate stocks and bonds rose by \$2.5 billion — the same increase as the year before. However, holdings of Federal, state, and local government bonds, excluding United States savings bonds, were reduced by \$1.9 billion, compared with an increase of \$2.3 billion in 1953. There was also a smaller amount added to government insurance last year, reflecting stepped-up unemployment benefits that were not matched by higher withholding rates.

The most significant offset to these lower rates of saving was the addition of only \$400 million to consumer installment credit on autos and other durables last year compared with \$3.2 billion the year before. Mortgage obligations rose substantially in 1954, however, advancing by \$8.6 billion to \$65.1 billion.

## Building Materials Output

The postwar construction boom has benefited suppliers of building materials in varying degrees. Some indication of the differential expansion in the output of these materials is provided by new indexes of building materials output recently published by the Department of Commerce (see chart). The indexes do not present a complete picture of the building materials industry since data for many specific lines are not available, but they do highlight changes in some important areas.

Trends in home design and building materials have, for example, favored output of gypsum wallboard, which has become a strong contender for interior finishing. On

the other hand, millwork has not kept pace with construction activity, in part because of competition from steel and aluminum for doors and windows used in contemporary homes. Output of lumber and brick and other clay products has moved up roughly with total building. The large advances in cement and iron and steel production, illustrated in the chart, reflect the substantial postwar expansion of nonresidential building including highway and other public works activity.

## Employment Up Sharply

Seasonal advances in agricultural and construction employment reinforced by a contraseasonal rise in the number of manufacturing jobholders in May pushed total employment to a record of 62.7 million for the month. This was up by somewhat more than a million workers from April and 1.6 million higher than in May, 1954. Unemployment declined to 2.5 million during May. Census data in thousands of workers follow:

	May 1955	April 1955	May 1954
Civilian labor force.....	65,192	64,647	64,425
Employment.....	62,703	61,685	61,119
Agricultural.....	6,963	6,215	6,822
Nonagricultural.....	55,740	55,470	54,297
Unemployment.....	2,489	2,962	3,305

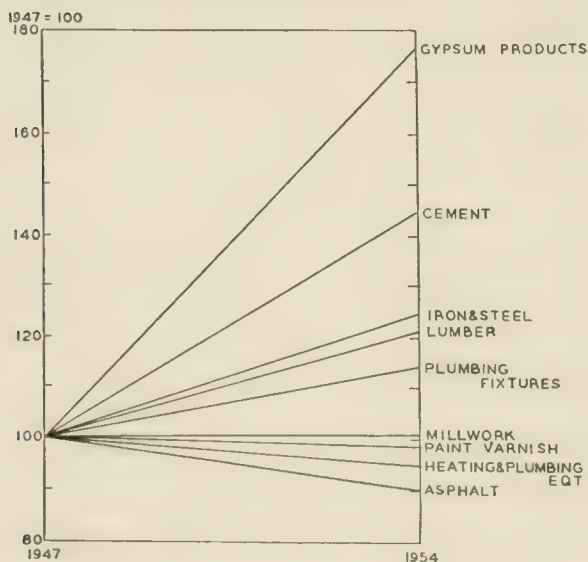
## Debt Change

Net public and private debt rose by \$21 billion last year to \$606 billion. The advance was the smallest since 1949 and compared with an increase of \$29 billion in 1953 and \$43 billion in 1950, the postwar peak.

Private debt moved up \$14 billion during the year to \$432 billion. All of the change resulted from increased mortgage debt and other borrowing by individuals and unincorporated businesses. Corporate debt outstanding declined by more than a billion dollars during the year.

Net public debt rose by \$7 billion, mainly because of sharply increased borrowing by state and local governments. Their debt advanced by 17 percent in fiscal year 1954, compared with 11 percent in both of the preceding years (state and local debt figures are available only on a fiscal year basis). At the Federal level, a \$2-billion increase in net debt was the smallest since 1951.

## OUTPUT OF BUILDING MATERIALS



Source: U. S. Department of Commerce.

## Wages and Prices

(Continued from page 2)

Secondly, it cannot be demonstrated that a slight acceleration of the wage trend would have any quantitative effect on prices. During the past three years average hourly earnings rose over 10 percent while prices held steady. In the recovery from the 1954 lows, the advance in wage rates was accelerated by rising hours of work, involving the payment of overtime premiums in the durable goods industries. These overtime premiums are likely to be eliminated in the months ahead, and the advance in wage rates may well be slowed rather than accelerated.

There is, moreover, no substantial reason to fear that increasing pressure on the labor force will accelerate the wage trend in the period ahead. The recent pace of advance has been based on temporary surges in three factors — autos, housing, and inventories — which cannot be expected to continue advancing at anything like the same rate. The best that can now be looked for is comparative stability, and the growth of the labor force will make for less rather than increased pressure on wages.

VLB



# BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

## Modern Die-Making

A method of casting forging dies from beryllium copper alloy has been developed by the Columbus, Ohio, division of North American Aviation. The expense of this new method may be as little as one-fourth that of cutting dies in the conventional manner. The beryllium copper dies can be used to forge parts of magnesium, steel, and aluminum.

Duralastic Products Company, Detroit, is using plastic rather than metal dies to make samples of plastic products. By this method ideas and designs can be tested before the expense of metal dies is undertaken. The dies will also be lasting enough to make prototypes for display before the more durable metal dies are ready for use. Examples of products where the plastic dies have been used to produce the testing items include automobile heater casings, chair backs, and fishing tackle boxes.

## Earnings of Factory Workers

The average hourly wage rate of factory workers throughout the nation in April, 1954, was \$1.68, according to a survey conducted by the Bureau of Labor Statistics. The distribution of wages covered a fairly wide range, however, as may be seen in the accompanying chart, and it differed substantially for male and female workers. About 22 percent of all workers earned less than \$1.25, but only 13 percent of the men were in that group in contrast to 51 percent of the women. At the other end of the scale 6 percent of the workers earned more than \$2.50, but this group included 8 percent of the men and only 1 percent of the women. In large measure the difference resulted from the concentration of men in highly skilled jobs and in industries with higher wage scales.

Average earnings varied considerably among the major industrial classifications, from a high of \$2.03 in

transportation equipment to a low of \$1.27 in tobacco processing. Machinery, metals, paper and printing, chemicals and petroleum, and instruments all averaged higher than the national \$1.68, whereas food processing, lumber and furniture, leather, textiles and apparel, and miscellaneous industries averaged lower.

The industry variations resulted in sizable regional differences, as did variations in the proportion of women employed. In the Middle West and the Far West there were a larger proportion of men employed and a greater concentration of workers in durable goods industries. These factors resulted in average earnings substantially higher than in the Northeast and in the South, where nondurable goods production is more important and where there are relatively more women workers.

## Auto-matic Additions

New and improved automobile accessories continue to flow into the market place. Two of these items are designed to meet special needs of the newer cars. The Trico Products Corporation, Buffalo, New York, has developed a special blade for windshield wipers that will curve around the wraparound windshields featured on many cars. This is done by the use of a self-normalizing "Cam-O-Matic" arm. The blade is also designed to improve wiping at high automotive speeds.

To make the driving of cars with automatic shift even easier, an auxiliary accelerator for the left foot has been designed by Zenith Industries, 1491 Vine Street, Los Angeles 28, California. This enables the driver to use his right foot for braking only, if he so desires, although it does not interfere with the right-foot operation of the accelerator. The device is made to retail at \$2.95.

A new synthetic rubber and a new synthetic cord have resulted in a tubeless tire which will give up to 50 percent more mileage, according to the Atlas Supply Company, subsidiary of Standard Oil. Viprene and Plycron, the new synthetics, give the added strength without requiring thicker-than-normal tread, reducing the danger of heating and blowouts of many extra-heavy tires. The tire will be priced at approximately \$70.

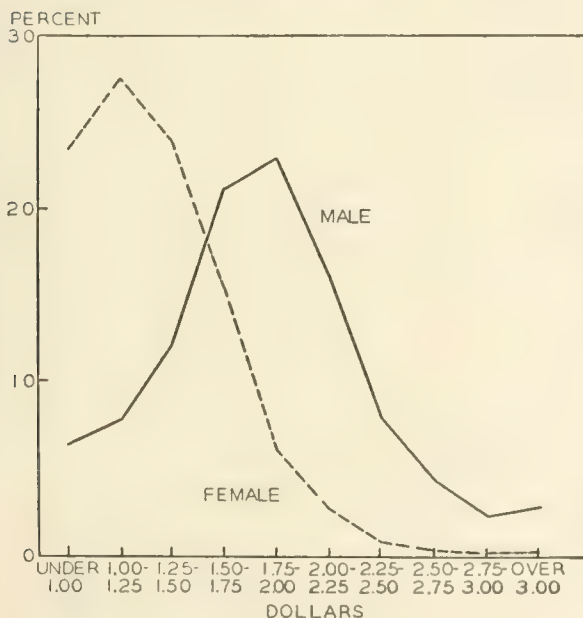
Although it was originally developed for military use, the "Telescopic Eye" may find a fertile market among car owners. The "eye" operates with a sensitive infrared receiving tube and a coated lens to pick up any object with heat enough to produce the infrared rays, seeing through even dense fog. The engine heat of an oncoming car or the exhaust of one on which the driver is gaining could be seen by a driver long before his headlights would pick them up. It is made by the Lewyt Corporation, Brooklyn, New York.

## Business Management

In a bulletin entitled *Appraisal of Management* the Bureau of Business Management of the University of Illinois has published the proceedings of the Seventh Industrial Management Institute held at the University last October. Included are the eleven addresses given by prominent businessmen of the State and the nation. The topics vary from cost controls and personnel programs to appraisal of management's problems and effectiveness. The bulletin is available from the Bureau of Business Management, 15 Commerce Annex, Urbana, at \$2.00 a copy.

### HOURLY WAGES OF FACTORY WORKERS

April, 1954



Source: U. S. Department of Labor.

# DEMAND FROM THE AGRICULTURAL SECTOR

LOWELL S. HARDIN

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Public discussions of the current farm situation run in a fairly pessimistic vein and tend to overlook many favorable aspects of the farmers' position. Large crop surpluses, lower prices, and declining farm incomes underlie this view, but they do not tell the whole story.

The per capita income of the farm population has remained high. This is true partly because total income, including inventory changes and nonfarm income as well as realized cash income from farming operations, has been fairly well maintained and partly because the farm population is diminishing. Furthermore, the financial position of agriculture remains fairly strong and farmers continue to be reasonably optimistic, or at least not pessimistic, about agriculture in the long run. Demand from the agricultural sector has been supported by these influences. Purchases of capital equipment and consumption goods and services by farmers promise to remain near the relatively high current levels.

## Farm Income Declines

The peak in farmers' cash receipts from marketings and government payments was reached in 1951. Since then receipts have dropped 9 percent, mainly because of lower farm prices received. Prices paid for items used in production are down only slightly from the peak. As a result, net realized farm income in 1954 was down 10 percent from 1953 and 16 percent from the 1951 high.

A further drop of 5 to 8 percent is likely to occur in 1955. Almost all of this decline can be expected to result from lower prices, since the volume of farm marketings will probably fall only slightly and production expenses are not likely to drop appreciably during the year. As of March 1, farmers intended to plant crop acreages nearly as great as those of 1954. Acreages in cotton, wheat, tobacco, and rice will be lower, but soybean and feed grain acreages are expected to increase.

Sustained production in combination with existing carryovers will exert further downward pressure on prices. Farm prices for all commodities by the end of the first quarter of 1955 averaged a full 5 percent below their year-earlier levels. Crop prices were up somewhat but prices received by farmers for livestock were 10 percent lower in March than a year ago.

Price support levels on eligible crops and acreages will also be lower in 1955. Farmers have received payments of \$7.4 billion for farm output consumers have not bought. As is well known, supplies acquired or under Commodity Credit Corporation loans are substantial. At mid-April, 1955, wheat holdings amounted to 1,099 million bushels, corn to 857 million bushels, cotton to 8.5 million bales, and butter and cheese to 810 million pounds. Because of these stocks and plans for output near 1954 levels, the United States Department of Agriculture has announced slight reductions in some support levels for 1955. The average support price for corn at 87 percent of parity is \$1.58 compared with an average of \$1.62 for the 1954 crop; wheat is down from \$2.24 at 90 percent last year to \$2.06 at 82.5 percent this year; soybeans will be supported at \$2.04, which is 70 percent of parity rather than the higher level of 80 percent last year.

Regional variations in farm income are the rule rather than the exception. The Corn Belt is currently ex-

periencing a relatively greater decline in income than many other regions because of lower hog prices this year. Cash receipts for the United States as a whole were off 5 percent from year-ago levels in the early part of 1955, compared with a decline of 7 percent in the East North Central Region. However, the cut in Corn Belt income is coming a year later than in several other regions.

## No Decline in Per Capita Income

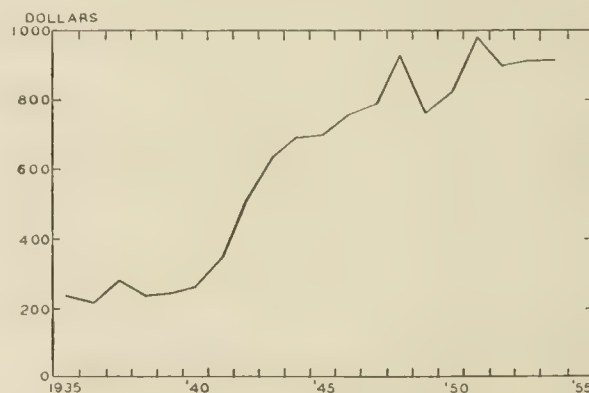
The anticipated decline in receipts from marketings and in net realized income of farmers relates only to the over-all results. These two measures do not take into account increasing farm size and the decreasing number of farms and farm people. Income from nonfarm sources and changes in farm inventories also need to be considered.

Net realized income of farm operators does not include income earned by the farm population in nonfarm pursuits. More than a fourth of the net income of the farm population comes from nonagricultural sources and although realized net income of farm operators dropped 10 percent in 1954, net income to the farm population including both farm and nonfarm sources was down only 3 percent. With income and employment in the nonfarm sector up this year, improved opportunities exist for farmers to supplement their income from nonfarm sources.

Moreover, some of 1954's output went into farmers' inventories and as such actually represents income which may be realized at a future date. Per capita farm incomes adjusted for inventory changes actually showed a small increase in 1954. Farmers liquidated inventory holdings in 1953, but in 1954 some accumulation occurred, with the result that farm income per capita from all sources after adjustment for inventory changes was up from \$914 in 1953 to \$918 in 1954, a level that was only slightly below 1951's peak (see accompanying chart).

The marked increase in per capita income over the past 15 years reflects agriculture's increasing ability to produce more crops and livestock with less labor. In 1955, per capita income for farmers will probably not drop significantly, if at all, since the rapid farm-to-city movement that has taken place in the past few years can be

PER CAPITA FARM INCOME



Source: U. S. Department of Agriculture.



expected to continue in 1955, and the lower farm income anticipated will be shared by fewer farmers.

## Financial Structure Basically Sound

The comparative balance sheet of agriculture compiled by the United States Department of Agriculture shows that the farmers' financial position has weakened somewhat in recent years but is still strong by comparison with anything but the postwar peaks. Although the net worth of agriculture at \$139.3 billion in 1955 was down about 10 percent from the 1952 peak of \$155.6 billion, it was over three times the \$43.7 billion of 1940. The worsening of position since 1952 has been caused by the decline in values of real estate and other farm assets and continued advances in real estate debt. Financial assets advanced about enough to offset further increases in non-real estate debt. A comparison of the two sides of the account shows that total liabilities amounted to only 13 percent of total assets in 1955.

In the Midwest, the real estate market has been much stronger than in other parts of the nation. The average value of farm land in Illinois, Indiana, and the East North Central area continued to advance after 1952 while the national average was declining several percent from the peak. Recently some tendency toward recovery has been shown in other areas. This strength in land values probably reflects a combination of farmer confidence, the rising productivity of land made possible by new technology and larger farms, and somewhat easier borrowing terms. A return to peak rates of expenditure for land cannot be expected in the near future, but substantial further declines are not threatened by the farm community's present position or attitudes.

## Farm Investment in New Equipment Reduced

To an increasing degree, commercial farming has become a mechanized enterprise. Capital investment per farm worker currently amounts to about \$14,000, up 70 percent from 1940 in real terms. This explains how farm output in 1954 could be nearly 30 percent higher than in 1940 while the farm population had shrunk by nearly a third, to 22 million, over the same years. In 1954, farmers had three times as many trucks and tractors as in 1940, four times as many milking machines, five times as many grain combines, and six times as many corn pickers.

Modern technical agriculture not only feeds on capital but cannot long produce with significant reductions in purchases of noncapital items. Farming is becoming more and more comparable to industry in that it operates on purchased rather than home-produced items. Since 1950 farmers have spent more than \$10 billion annually for nonfarm goods and services. Expenditures of almost \$5 billion a year have been made on machinery, motor vehicles, repairs, and fuels; over \$4 billion annually have gone into chemicals, building materials, and fencing, and more than \$1 billion into fertilizers.

Farmers' demand for production items from the non-farm sector of the economy is expected to remain essentially stable over the near-term given a parity ratio of 85 to 88. When farm income declines expenditures for capital items may be deferred. But unless farmers reduce production, cutbacks in the use of fertilizers and other supplies are improbable.

Continued substitution of capital items for labor and continued use of purchased production items are generally economic under present price relationships. The cost of hired labor is the only important element in farm pro-

## INDEXES OF FARM PRODUCTION PRICES (1935-39 = 100)

Item	1950	1954	Jan. 1955
Hired labor.....	351	421	431
Building and fencing materials.....	215	241	243
Motor vehicles.....	199	222	224
Machinery.....	180	205	205
Farm supplies.....	176	196	197
Motor supplies.....	143	156	156
Fertilizer.....	141	152	152

Source: United States Department of Agriculture.

duction costs that increased significantly between 1954 and the beginning of 1955 (see table). Prices of capital equipment and farm supplies were virtually unchanged. One of the reasons for the long-term trend toward increasing use of machinery is also evident from the table. Wages for hired labor are more than four times those in the 1935-39 base period, compared with increases of only about 2 times for motor vehicles and machinery.

Farmers' expenditures for new machinery in 1954 were 10 percent below 1953. Last year's volume of purchases is not likely to be exceeded in 1955. Farmers are currently well equipped and expenditures will be largely in the direction of replacing old and inefficient equipment. Replacement of relatively new equipment will be resisted unless definite cost economies can be demonstrated for new models.

## Other Farm Purchases Higher

On the other hand, consumption of fuel, tires, and motor supplies can be expected to increase slightly in 1955. Expenditures for these items depend largely on the stock of machinery and the extent of its use. Despite the decline in expenditures for farm equipment last year the stock of equipment increased, and with production remaining high, farm outlays for maintaining and operating equipment must go up.

Fertilizer consumption may reach a new high this year. Use has risen from 2 million tons in 1940 to 6 million tons in 1954, and, as for most chemicals, the market continues to be an expanding one. As in the case of capital equipment, farmers can be expected to buy new production items at a fairly rapid rate as long as these goods show promise of reducing unit costs.

In addition to demand for production goods being sustained, demand for consumption items by the farm sector may strengthen slightly this year. Consumption, generally speaking, is dependent on income, but the more optimistic view of the general economic outlook by farmers and the greater opportunities for earning non-farm income encourage free spending. Under these conditions, furthermore, income may be supplemented with credit and savings, since credit is generally available and most farm people are in a relatively liquid position.

In making an appraisal of farm demand it is important to recognize that the total farm market continues in a state of flux. Crosscurrents of demand sometimes merge with startling results. Currently they are veering to the favorable side. Although the total farm market is shrinking in comparison with the nonfarm economy, purchasing power per farm unit may be increasing. Actual rural purchasing power for goods and services used in production and consumption may therefore continue relatively strong.

# LOCAL ILLINOIS DEVELOPMENTS

Economic activity declined slightly in Illinois during April as many indicators reflected seasonal slackening. Coal production was down sharply from its March level, although it remained well ahead of 1954, as it has all year. Bank debits and life insurance sales also registered substantial drops, but remained above a year earlier.

Construction contract awards, on the other hand, experienced a seasonal gain as weather improved, rising 32 percent to a level almost twice as high as in April, 1954. Department store sales also were higher, sparked by the onset of warmer weather.

The only major indicators below their April, 1954, levels were business loans at Chicago banks, down 5 percent, and farm prices, down 14 percent.

## Forty Years of Banking

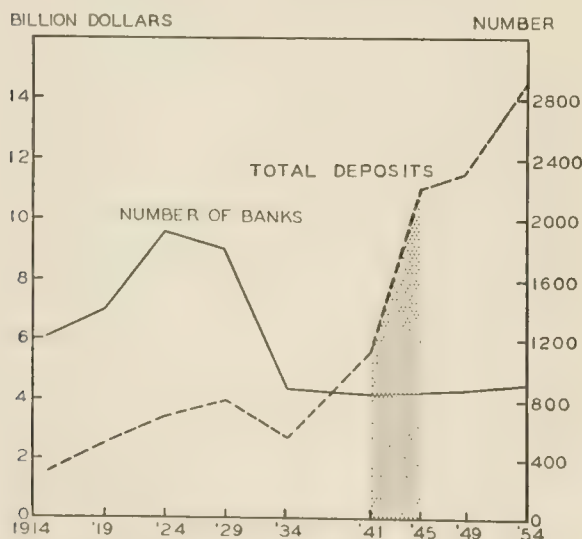
Deposits of Illinois banks have increased tenfold in the past forty years. The vastly increased business of 1954 is being carried on, however, by 25 percent fewer banks than existed in the State in 1914.

As may be seen in the chart below, the reduction in the number of banks came between 1929 and 1934 when thousands of banks were closed throughout the nation. Since most of the banks which closed were the smaller, less well-protected banks and since some of the assets of the failing banks were assumed by stronger neighbors, deposits in those five years declined only half as much as did the number of banks.

While the number of banks remained fairly stable, deposits resumed their upward trend after 1934. The great surge came during the war, when deposits doubled between 1941 and 1945. The Korean conflict brought another spurt in the need for bank credit, raising deposits from \$12 billion to more than \$14.4 billion.

The primary assets behind these growing deposits have always been loans and investments, the earning assets. In 1914 loans accounted for about three-fourths of the total, a proportion which held fairly constant through 1929. After that time, however, loans declined sharply with business conditions, whereas investments, largely United States Government securities, continued to expand, so that by 1934 loans and investments were about equal.

BANKING IN ILLINOIS, 1914-54



Source: Federal Reserve Board.

Loans resumed their upward trend after 1934, but because of the war needs investments in Governments grew even faster, to 75 percent of total loans and investments of Illinois banks in 1945. Since that time loans have expanded sharply, whereas investments have held steady; in 1954 loans accounted for 37 percent of the total, Governments for 52 percent, and other investments for only 11 percent of the earning assets behind deposits.

## Net Farm Earnings, 1954

Variety characterized 1954 net farm earnings in Illinois, with northern farmers enjoying bumper crop yields and southern farmers suffering from drouth conditions.

In the central and northern parts of the State higher prices and larger crops combined to yield substantially larger earnings than in 1953. Reports of the Illinois Farm Bureau Farm Management Service indicate that net earnings per acre of cash grain farms in central Illinois were more than 30 percent higher than in 1953, western hog farms more than 10 percent higher, and feeder-hog farms about 60 percent higher. The only farms in the Chicago area not to have earnings up to those of a year earlier were dairy farms, whose net declined about 2 percent.

Higher prices were no help to the southern Illinois farms hit by drouth. Dairy farms in the St. Louis area recorded a net loss for the year, as did poultry and feeder-cattle farms. Grain and hog farms, while netting a profit, earned substantially less than in 1953.

Complete reports of the survey are available from the Illinois Farm Bureau Management Service, College of Agriculture, University of Illinois, Urbana.

## Expansion of Northern Illinois Industry

Growth highlights the picture of industry in northern Illinois. New plants and expansion of existing facilities may be found in several sections.

Rockford is a center of rapid expansion. The Goss Printing Press Company recently opened a plant to make all the Goss flat-bed and tubular presses, stereotyping equipment, and parts for other presses. The plant employs about 200 persons. Plans are also completed for a plant for the American Chiclé Company.

Additions to two other Rockford plants are also under way. The American Cabinet Hardware Corporation is building a new plant, not only to consolidate the operations which it now houses in several locations in that city but also to allow room for over-all expansion. The Barnes Drill Company is also planning to build a new plant which will double its capacity and employ about 200 more workers.

The California Packing Corporation expects to open a new plant in Rochelle this summer. The factory will supply cans for the food processing of the company's Midwest division and will employ about 100 persons.

Many small new plants have sprung up in the Joliet area in recent months. These include the Great Lakes Aluminum Company, manufacturers of metal seats; the Kenlite Corporation, makers of corrugated plastic sheets for awnings and skylights; Revere Copper and Brass, Incorporated, producers of seamless brass tubing, and the Joliet Tool and Manufacturing Company, makers of tools, dies, and fixtures. The F. E. Schundler Company, producers of nonmetallic minerals and insulation, are constructing an addition to their Joliet plant which will expand employment by about 50 persons.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

April, 1955

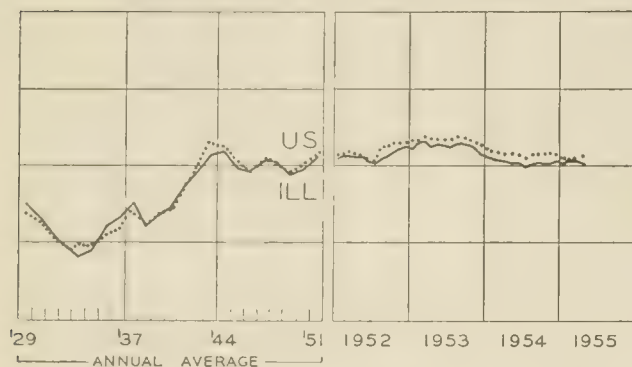
		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b>							
		\$34,615 <sup>a</sup>	971,115 <sup>a</sup>	\$547,002 <sup>a</sup>		\$13,370 <sup>a</sup>	\$14,196 <sup>a</sup>
Percentage change from.....	Mar., 1955	-8.7	-4.8	+11.2	+5	-15.6	-11.7
	Apr., 1954	+16.6	+4.5	+6.0	+9	+9.2	-1.0
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b>							
		\$22,798	742,741	\$400,386		\$12,211	\$12,385
Percentage change from.....	Mar., 1955	-13.3	-5.7	+10.0	+4	-16.5	-12.1
	Apr., 1954	+19.7	+2.9	+6.3	+9	+9.3	-1.2
<b>Aurora</b>							
		\$ 846	n.a.	\$ 7,814		\$ 51	\$ 124
Percentage change from.....	Mar., 1955	+135.7		+19.3	+33	-3.0	-7.8
	Apr., 1954	+25.3		+10.2	+10	+13.2	+7.6
<b>Elgin</b>							
		\$1,139	n.a.	\$ 5,686		\$ 34	\$ 107
Percentage change from.....	Mar., 1955	+192.1		+11.4	+27	-5.2	+5.5
	Apr., 1954	+463.9		+11.4	+11	+18.3	+10.1
<b>Joliet</b>							
		\$ 803	n.a.	\$11,830		\$ 72	\$ 96
Percentage change from.....	Mar., 1955	-67.6		+19.7	+16	+1.7	-3.4
	Apr., 1954	+6.4		+5.9	+33	+27.7	+1.3
<b>Kankakee</b>							
		\$ 259	n.a.	\$ 5,503		n.a.	\$ 42
Percentage change from.....	Mar., 1955	+47.2		+14.0	n.a.		-8.1
	Apr., 1954	+99.2		+10.7			+7.9
<b>Rock Island-Moline</b>							
		\$ 800	21,243	\$ 9,491		\$ 87 <sup>b</sup>	\$ 163
Percentage change from.....	Mar., 1955	-14.3	-4.4	+12.5	n.a.	+1.5	+7.1
	Apr., 1954	-68.3	+7.9	+5.5		+13.1	+6.9
<b>Rockford</b>							
		\$2,766	35,248	\$18,139		\$ 149	\$ 208
Percentage change from.....	Mar., 1955	+6.1	+0.5	+17.9	+26 <sup>c</sup>	-10.3	-18.3
	Apr., 1954	+9.3	+15.1	+12.6	+4 <sup>c</sup>	+11.5	-0.5
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b>							
		\$ 277	7,107	\$ 5,403		\$ 62	\$ 117
Percentage change from.....	Mar., 1955	+50.9	-1.4	+12.2	n.a.	-3.4	+8.5
	Apr., 1954	-46.3	+6.0	+1.0		+5.4	-10.4
<b>Champaign-Urbana</b>							
		\$ 462	9,046	\$ 7,374		\$ 60	\$ 102
Percentage change from.....	Mar., 1955	-6.3	-5.3	+9.7	n.a.	+11.8	+2.7
	Apr., 1954	+57.1	+11.3	-2.3		+23.5	+1.2
<b>Danville</b>							
		\$ 261	9,066	\$ 6,015		\$ 47	\$ 54
Percentage change from.....	Mar., 1955	+45.0	+17.9	+11.0	+20	-2.5	-10.4
	Apr., 1954	+143.9	-1.6	-1.5	+18	+14.5	-0.9
<b>Decatur</b>							
		\$ 569	26,799	\$10,516		\$ 104	\$ 111
Percentage change from.....	Mar., 1955	-26.0	-1.0	+13.6	+25 <sup>c</sup>	+0.1	-15.2
	Apr., 1954	-8.8	+26.2	-0.0	+7 <sup>c</sup>	+20.4	-3.5
<b>Galesburg</b>							
		\$ 999	7,006	\$ 4,366		n.a.	\$ 35
Percentage change from.....	Mar., 1955	+214.2	-6.5	+15.2	n.a.		-5.6
	Apr., 1954	+392.1	+1.7	+0.8			+4.5
<b>Peoria</b>							
		\$ 622	47,205 <sup>c</sup>	\$17,460		\$ 197	\$ 247
Percentage change from.....	Mar., 1955	-17.2	1.3	+15.3	+16 <sup>c</sup>	-6.7	+3.1
	Apr., 1954	+37.0	+19.7	+10.0	+14 <sup>c</sup>	+7.3	+8.3
<b>Quincy</b>							
		\$ 602	8,522	\$ 4,999		\$ 37	\$ 67
Percentage change from.....	Mar., 1955	+83.5	+10.8	+16.7	+27	-8.1	-12.5
	Apr., 1954	+58.8	+12.5	+2.7	+11	-6.3	-6.1
<b>Springfield</b>							
		\$ 625	28,048 <sup>c</sup>	\$13,179		\$ 99	\$ 210
Percentage change from.....	Mar., 1955	+65.3	-6.4	+15.0	n.a.	-10.2	-25.4
	Apr., 1954	+33.5	+9.7	+2.7		-1.8	-9.9
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b>							
		\$ 230	11,768	\$ 9,344		\$ 122	\$ 54
Percentage change from.....	Mar., 1955	-39.2	-1.3	+13.1	n.a.	-13.4	-26.1
	Apr., 1954	-36.1	-5.5	+1.3		-10.9	-14.9
<b>Alton</b>							
		\$ 154	11,504	\$ 4,981		\$ 39	\$ 31
Percentage change from.....	Mar., 1955	+42.6	-7.6	+10.6	n.a.	-8.6	-6.0
	Apr., 1954	-21.8	+4.0	+0.7		+10.3	+20.5
<b>Belleville</b>							
		\$ 403	5,812	\$ 4,516		n.a.	\$ 39
Percentage change from.....	Mar., 1955	+1.5	-2.9	+10.0	n.a.		-13.3
	Apr., 1954	+76.8	+5.1	+3.1			-7.6

<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for March, 1955, the most recent available. Comparisons relate to February, 1955, and March, 1954. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

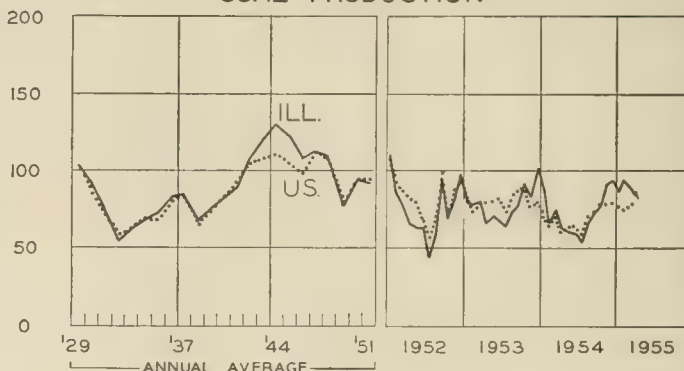
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

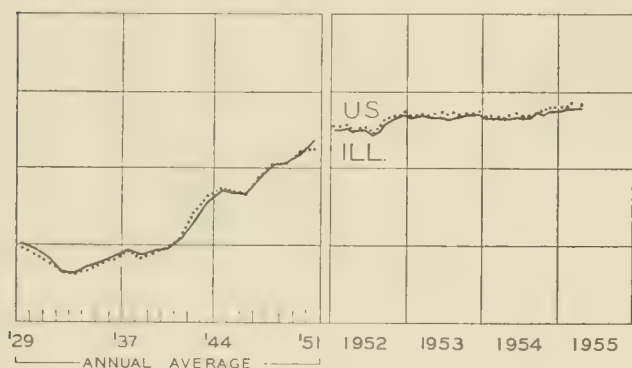
EMPLOYMENT - MANUFACTURING



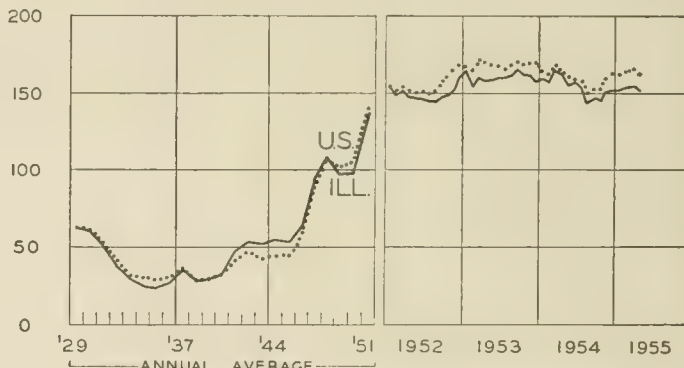
COAL PRODUCTION



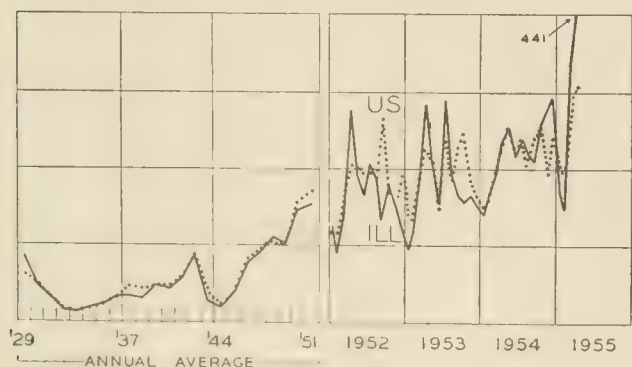
AVG. WKLY. EARNINGS - MANUFACTURING



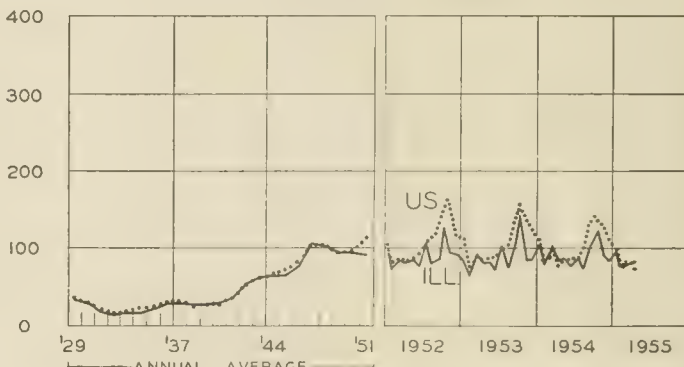
BUSINESS LOANS



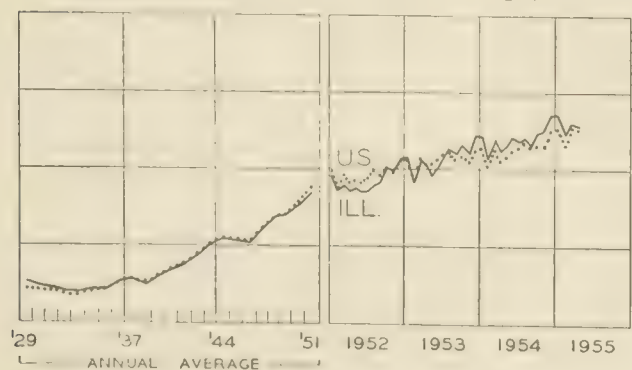
CONSTRUCTION CONTRACTS AWARDED



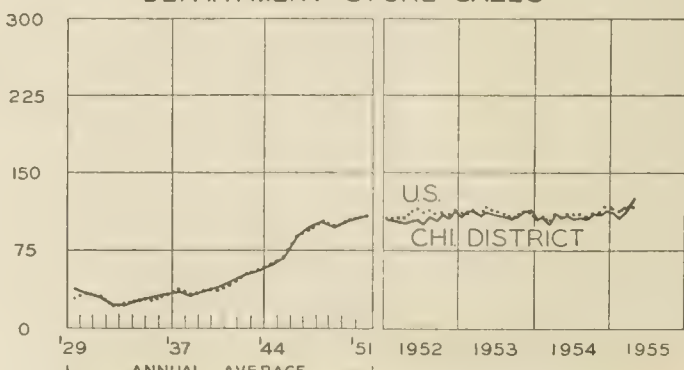
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

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## HIGHLIGHTS OF BUSINESS IN JUNE

Labor unrest during June trimmed production in two basic industries—motor vehicles and steel. Output of cars and trucks in early June was a fourth below the high May rate. Further cutbacks are expected with the seasonal decline in sales and the changeover to 1956 models. Steel production fell briefly at the end of the month as furnaces were banked in anticipation of a strike.

Other business indicators showed mixed trends—petroleum production was off from May, freight carloadings were about the same, coal output and electric power production were up. The electric power industry set a new record with 10.2 billion kilowatt-hours in the week ended June 25.

### Construction Hits New Peak

Building activity continued upward in June to reach a new high of \$3.8 billion. All three major categories—private residential, private nonresidential, and public—contributed to the advance from May's \$3.6 billion. Gains over the previous month ranged from 6 to 9 percent. For the first half of 1955, construction expenditures totaled \$19.1 billion, 14 percent over the corresponding period last year.

A joint release by the Departments of Commerce and Labor estimates the value of 1955 activity at \$41.8 billion, 11 percent over 1954's record level. Private construction will account for the lion's share of the gain with residential building up 19 percent and nonresidential building up 17 percent. Public construction is expected to increase 4 percent over last year.

### Important Labor Settlements

Expectations of a continued high level of business activity were buttressed in June and early July by the quick settlements in the automotive and steel industries. The total gain for the auto workers was about 20 cents an hour, but only part of this will show up in their pay envelopes. The chief new feature, embodying "the principle of the guaranteed annual wage," was the payment of 5 cents an hour into a fund to supplement unemployment benefits so workers could expect income of 60 to 65 percent of their regular earnings for a period of 26 weeks. However, the end results of the pacts are still to be seen since many states have laws which bar state benefits if payments are received from other sources.

In steel, a strike of a few hours was ended with an

agreement which gave the steel workers an average pay increase of 15 cents an hour. As a result of the pay boost, United States Steel announced an average price rise of \$7.50 a ton, and other companies were expected to follow suit.

### Industrials Still Setting New Highs

The stock market continued to show considerable strength during June. By the end of the month, the Dow-Jones average of 30 industrials had reached a new high of 451, a rise of 6.4 percent over the month. Actual and expected higher earnings and dividends, record production rates in some industries, the nearly peaceable settlement in the automobile industry, and general optimism concerning the business future are cited as having contributed to the advance. Institutional investments have also played a part.

Rails and utilities have lagged. The Dow-Jones average of 20 railroad stocks was up less than one index point to 161 over the month. Utilities were virtually unchanged, reflecting the rise in interest rates.

It remains to be seen what effect an increase by several New York banks in the interest rate to brokers and dealers for non-Government securities will have. Six major banks increased their rate to brokers and dealers borrowing for their own account from  $2\frac{3}{4}$  percent to 3 percent. The rate on borrowing for customers' accounts remained at 3 percent.

### Wheat Controls Voted

Contrary to the expectations of experts in the field, the nation's wheat growers have again voted for Department of Agriculture controls on wheat production. More than three-fourths of the farmers voting favored marketing quotas for the 1956 crop. Substantially lower production next year is expected as a result. Even so, there will still be a serious oversupply of wheat. July 1, 1955, surplus stocks exceeded a billion bushels, approximately a fifth greater than the estimated 860-million-bushel 1955 crop.

Had controls been rejected, the support level would have dropped to 50 percent for 1956. As it is, props have been set at 76 percent of parity, or \$1.81 a bushel, the lowest level since 1946. For this year's crop, support was set at 82.5 percent of parity, \$2.06 a bushel. Plantings for 1956 will be 55 million acres, the same as for this year.

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# ILLINOIS BUSINESS REVIEW

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## Readjustment in 1956

In the months ahead the economy will be more or less standing still, but it won't be in the doldrums. Everybody is in a free and easy mood, and the pace of total spending for goods and services is running close to \$380 billion, an all-time high.

The upswing during the past year has been little short of amazing. The boom forged ahead on power nobody knew it had in reserve. Its momentum ensures a further rise of several billion before the peak is reached. However, the advance has been so much dependent on temporary factors that a readjustment is definitely in the offing.

### Why Look for a Downturn?

During the fiscal year just ended, gross national product advanced more than \$20 billion from the 1954 low of \$358 billion. Practically all of the advance took place in three surging lines of activity. The inventory reversal—from a rate of liquidation of over \$4 billion to accumulation in excess of \$5 billion—accounted for almost half the rise. More than a fourth consisted of increased consumer spending for automobiles and other durable goods. Another important part was accounted for by increased construction, mainly single-family homes. These were the dynamic elements. Other consumer goods and services moved up with income. Small offsetting movements characterized the rest of the picture.

Inventory accumulation has now reached a point where it is time to call a halt to the rate of expansion. Even if business continues high, accumulation cannot be maintained at this rate very long. If inventories should move temporarily higher still, it would only be at the cost of aggravated instability later. Relative to the current volume of business, inventories do not appear to be excessive; but inasmuch as sales volume is dependent on inventory accumulation and on other factors that can't continue, it does not provide a sound basis for judging how high inventories should be. Even a moderate decline in sales volume would tend to swing inventories the other way again—to the side of liquidation. The beginning of the new reversal will probably get under way late in the year.

Purchases of autos and other consumer durable goods are definitely out of line with income. Judged by past experience, the bulk of the \$6 billion increase in sales over a year ago is of this nature. Coincidentally, that \$6

billion is also the rate at which consumers are adding to their installment debt, reflecting the fact that the heavy buying has been financed largely by borrowing. The chart on page 5 shows the disparity between extensions of consumer credit and repayments. This disparity is at a rate that calls for early correction. The upper line will turn down, the lower line will continue up, and the two will probably again cross near the end of the year.

The problem of residential construction was discussed here in May. Home building, too, has advanced under the stimulus of easy financing. Currently that stimulus is being lessened by the tightening of the money market. The slow decline from the early 1955 highs, which is already under way, will probably accelerate in the months ahead.

There is nothing in sight of sufficient magnitude to stop the decline when these factors turn down. Government expenditures have apparently hit their low for the time being and are again tilted slightly upward. Producers' outlays for plant and equipment are advancing moderately; but they are unlikely to go much higher and will probably make a lagging turn down after the readjustment begins. While these elements of strength will stabilize the economy against any early declining tendencies, they will have little effective braking power when the downward movement gets steeper.

### Moderating the Decline

Nevertheless, the decline will probably be held to modest proportions in 1956. The same influences that held the 1954 decline within such narrow limits will again be at work, perhaps not quite so effectively as before but exercising a definite restraint nevertheless. Only some dramatic change in the situation, not now predictable, would be likely to turn the prospective readjustment into a rout.

In the 1954 recession, consumer expenditures rose while gross national product declined by over \$10 billion. Ordinarily consumer income and expenditures go along with gross product. A number of things happened to prevent the usual outcome. Corporate profits fell sharply and government transfer payments rose, so that very little of the decline got into personal income. Then, to complete the turn-around, taxes were reduced by more than the decline in personal income. As a result, disposable income actually rose during a decline—an event described by the National Bureau of Economic Research as "unprecedented in the annals of business cycles."

In 1956, the same influences will be at work. Corporate profits before taxes will fall, very likely to a new low since 1949. Unemployment will increase, and transfer payments will rise correspondingly. Additional tax cuts have been promised by both the Administration and Congress. Something in the order of magnitude of the 1954 tax cut is generally expected. These changes will again offset much of the decline in gross product; only a fraction of that decline may carry over to depress disposable personal income.

Although the decline in disposable income may be small, it will be reflected fully in consumer spending. Savings are already low, being depressed by heavy borrowing to finance purchases of houses and durable goods. Moreover, an increasing amount of saving will be in

(Continued on page 6)



## ACADEMIC APPAREL

The types of academic apparel currently in use by American colleges and universities are fairly standard in design and material. The familiar undergraduate gown, fashioned from black worsted material, is traditionally worn at graduation by the candidate for the bachelor's degree. A candidate for a higher degree, such as the master's or doctor's, is attired in a gown usually made of silk and different in sleeve design and appearance from that of the undergraduate. In addition, high schools, grade schools, and even kindergartens are currently using caps and gowns in their graduation exercises.

The most outstanding feature of collegiate academic costume is the hood. It has the appearance of a shoulder cape and is usually lined with silk of the colors of the college or university granting the degree and trimmed with velvet of the color representing the department in which the degree was obtained. The width of the border indicates the degree — two inches for the bachelor's, three inches for the master's, and five inches for the doctor's hood. However, the larger the institution, the less significant the ceremonial dress becomes, and several of the larger universities advocate the use of the hood for the doctor's degree only.

### Origin

Academic costume as we know it today seems to have originated at Oxford and Cambridge universities in England during the early fourteenth century. When universities were first taking form, they were under the jurisdiction of the church, and the medieval scholars were required to wear the clerkly gown, which was monastic or ecclesiastical in origin. The hood, however, developed from the ordinary lay costume of an earlier period and at one time was a garment common to all classes.

As the British universities passed from the control of the church, the costumes took on brighter colors. Student groups specialized, attracted by outstanding teachers, and separate departments were set up with different hood colors. These hoods were eventually adopted by all the faculty and university students and are currently retained by various faculties as an academic distinction.

In the United States, academic costume was introduced during the early colonial days. Many of the regulations in force at Oxford and Cambridge were transplanted to America in 1754 when King's College (renamed Columbia College and now part of Columbia University) was established in New York City. However, much of the high color and tradition found in Great Britain was lost.

The first academic apparel manufactured in America was designed by Gardner C. Leonard for his class at Williams College and made by Cotrell and Leonard of Albany, New York, in 1887. In 1893, Leonard acted as academic adviser to an intercollegiate commission which drafted a uniform code for caps, gowns, and hoods for the various degrees which has since been accepted by 800 colleges and universities throughout the United States.

### The Industry Today

There are 24 major companies engaged in the rental and sale of academic apparel in the United States but only six companies manufacture the products for the whole industry. In addition to academic caps, gowns, and hoods, many companies also handle nurses' capes, choir and pulpit robes, band and lodge uniforms, and various other specialties. In all, the industry employs from 3,000 to 4,000 persons, depending upon seasonal variations.

The industry is influenced by population growth, which is reflected in an increased volume of business as more young people reach graduation age. For example, high school and grade school enrollment — not to mention college — jumped from 25 million in 1950 to 30 million in 1954, and is estimated at 35 million for 1960.

Many of the smaller school districts are combining into larger ones and are extending the length of their school term so that the graduation peak is concentrated into a very short period of time. This has cut down on the turnover in rental operations and has become a serious problem to the industry. However, by increasing the volume of secondary items and by developing new types of business to fill in the slower months, the seasonal aspects of the industry may be diminished.

### Illinois — World Leader

Illinois is the largest producer of academic apparel in the world, and three of the six major manufacturers in America are located within the State. They are Collegiate Cap and Gown Company of Champaign, DeMoulin Brothers and Company of Greenville, and E. R. Moore Company of Chicago.

The Collegiate Cap and Gown Company of Champaign, founded in 1926, is the largest organization of its kind in the world. It maintains stock and sales offices at Chicago, Los Angeles, and New York City, and operates a branch factory at Arcola, Illinois. During the peak of the season, it employs as many as 700 people and turns out from 550 to 650 gowns daily.

DeMoulin Brothers and Company of Greenville, founded in 1892, commenced manufacturing caps, gowns, and hoods in 1910, and today is one of the principal cap and gown manufacturers in the United States. It employs approximately 150 people and, in addition to academic apparel, manufactures choir and pulpit gowns, paraments, uniforms, banners, flags, pennants, and other items.

The E. R. Moore Company is the oldest Midwest Company in the field. It employs more than 200 persons and also does a considerable amount of business with churches, supplying choir and pulpit robes.

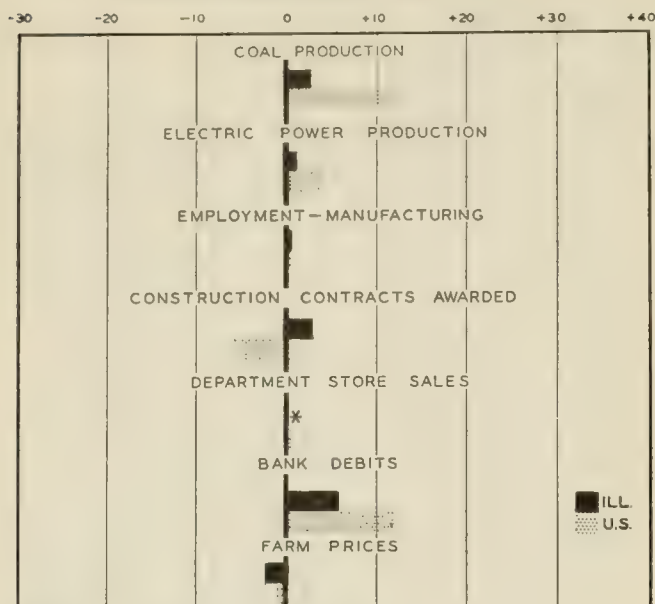
Murphy Cap and Gown and University Cap and Gown of Chicago are also engaged in the rental and sales of academic apparel. In addition, several smaller organizations handle various items of an academic nature, and though their activities are rather limited, they help Illinois maintain her position of world leader.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes April, 1955, to May, 1955



\* No change from previous month.

## ILLINOIS BUSINESS INDEXES

Item	May 1955 (1947-49 = 100)	Percentage Change from	
		April 1955	May 1954
Electric power <sup>1</sup> .....	191.0	+1.2	+10.9
Coal production <sup>2</sup> .....	66.8	+2.6	+15.0
Employment—manufacturing <sup>3</sup> .....	104.0	+0.4	+2.8
Weekly earnings—manufacturing <sup>3</sup> .....	140.7 <sup>a</sup>	+0.1	+7.8
Dept. store sales in Chicago <sup>4</sup> .....	114.0 <sup>b</sup>	+3.6	+5.6
Consumer prices in Chicago <sup>5</sup> .....	117.2	+0.3	-0.1
Construction contracts awarded <sup>6</sup> .....	453.6	+2.8	+78.1
Bank debits <sup>7</sup> .....	161.2	+5.6	+11.6
Farm prices <sup>8</sup> .....	81.0 <sup>c</sup>	-2.4	-13.8
Life insurance sales (ordinary) <sup>9</sup> .....	191.7	-0.5	+20.0
Petroleum production <sup>10</sup> .....	126.3	+5.6	+24.1

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor;  
<sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.  
<sup>a</sup> April data; comparisons relate to March, 1955, and April, 1954.  
<sup>b</sup> Seasonally adjusted. <sup>c</sup> Revised series.

## UNITED STATES MONTHLY INDEXES

Item	May 1955	Percentage Change from	
		April 1955	May 1954
Annual rate in billion \$			
Personal income <sup>1</sup> .....	301.1 <sup>a</sup>	+ 0.7	+ 5.0
Manufacturing <sup>1</sup> .....			
Sales.....	318.0 <sup>a</sup>	+ 1.9	+14.2
Inventories.....	43.6 <sup>a, b</sup>	+ 0.7	- 1.6
New construction activity <sup>1</sup> .....			
Private residential.....	16.4	+ 5.1	+23.2
Private nonresidential.....	13.5	+ 7.1	+11.6
Total public.....	12.6	+14.8	+ 2.2
Foreign trade <sup>1</sup> .....			
Merchandise exports.....	15.1 <sup>c</sup>	- 6.0	-11.5
Merchandise imports.....	10.4 <sup>c</sup>	-14.5	- 9.0
Excess of exports.....	4.7 <sup>c</sup>	+21.0	-16.4
Consumer credit outstanding <sup>2</sup> .....			
Total credit.....	31.6 <sup>b</sup>	+ 3.0	+11.3
Installment credit.....	24.1 <sup>b</sup>	+ 2.7	+12.4
Business loans <sup>2</sup> .....	22.6 <sup>b</sup>	+ 0.4	+ 3.6
Cash farm income <sup>3</sup> .....	22.8	- 4.2	- 4.3
Indexes (1947-49 = 100)			
Industrial production <sup>2</sup> .....			
Combined index.....	138 <sup>a</sup>	+ 1.5	+10.4
Durable manufactures.....	153 <sup>a</sup>	+ 2.0	+12.5
Nondurable manufactures.....	126 <sup>a</sup>	+ 0.8	+ 7.7
Minerals.....	120 <sup>a</sup>	0.0	+ 8.1
Manufacturing employment <sup>4</sup> .....			
Production workers.....	106 <sup>a</sup>	+ 1.0	+ 3.8
Factory worker earnings <sup>4</sup> .....			
Average hours worked.....	102	+ 1.2	+ 3.6
Average hourly earnings.....	141	+ 0.5	+ 3.3
Average weekly earnings.....	144	+ 1.8	+ 7.0
Construction contracts awarded <sup>5</sup> .....	286	- 5.9	+13.5
Department store sales <sup>2</sup> .....	117 <sup>a</sup>	- 1.7	+ 8.3
Consumers' price index <sup>4</sup> .....	114	0.0	- 0.7
Wholesale prices <sup>4</sup> .....			
All commodities.....	110	- 0.5	- 0.9
Farm products.....	91	- 3.1	- 6.7
Foods.....	102	- 0.4	- 4.4
Other.....	116	- 0.2	+ 0.9
Farm prices <sup>3</sup> .....			
Received by farmers.....	90	- 1.1	- 4.3
Paid by farmers.....	113	- 0.9	- 0.9
Parity ratio.....	87 <sup>d</sup>	0.0	- 3.3

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for April, 1955; comparisons relate to March, 1955, and April, 1954. <sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1955					1954
	June 18	June 11	June 4	May 28	May 21	June 19
<b>Production:</b>						
Bituminous coal (daily avg.).....thous. of short tons..	1,607	1,558	1,598	1,561	1,542	1,326
Electric power by utilities.....mil. of kw-hr.....	9,887	10,041	9,537	9,976	9,730	8,850
Motor vehicles (Wards).....number in thous.....	165	160	150	198	208	134
Petroleum (daily avg.).....thous. bbl.....	6,626	6,600	6,592	6,655	6,676	6,495
Steel.....1947-49 = 100.....	134	133	134	135	136	100
Freight carloadings.....thous. of cars.....	785	787	714	790	774	707
Department store sales.....1947-49 = 100.....	117	114	102	114	115	115
<b>Commodity prices, wholesale:</b>						
All commodities.....1947-49 = 100.....	110.2	110.0	110.2	110.2	110.3	110.0 <sup>a</sup>
Other than farm products and foods.....1947-49 = 100.....	115.5	115.5	115.6	115.6	115.7	114.2 <sup>a</sup>
22 commodities.....1947-49 = 100.....	90.4	89.6	89.0	89.1	89.3	91.6
<b>Finance:</b>						
Business loans.....mil. of dol.....	23,355	22,623	22,636	22,641	22,737	21,973
Failures, industrial and commercial.....number.....	214	230	203	204	226	207

Source: Survey of Current Business, Weekly Supplements.

<sup>a</sup> Monthly index for June, 1954.



# RECENT ECONOMIC CHANGES

## Manufacturers' Sales Continue Gains

Durable goods industries continued to pace the rapid advance in manufacturers' sales in May. Total manufacturers' shipments, seasonally adjusted, moved up to a new high of \$26.5 billion, bettering by a moderate figure the previous high reached in April, 1953. Sales by durable goods firms advanced by a half billion dollars in May to \$13.3 billion, more than a fifth above the year-earlier level. Shipments of nondurables were up only slightly to \$13.3 billion during the month, but this was 10 percent higher than May, 1954.

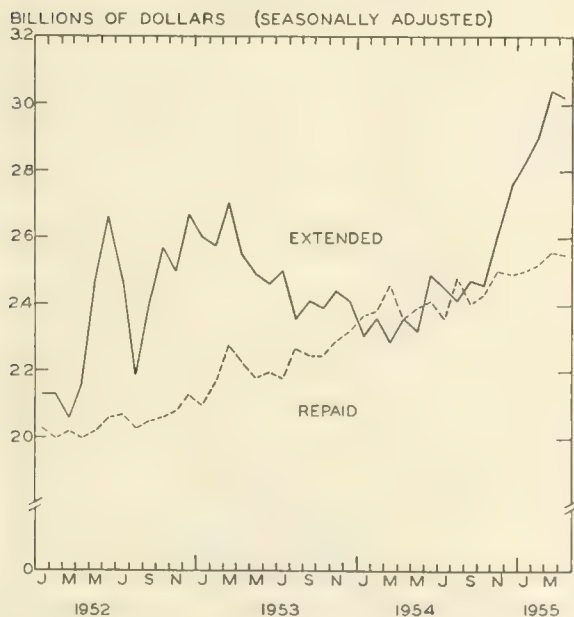
Manufacturers' new orders increased substantially between April and May, also largely because of activity in the durable goods sector. The advance in orders for hard goods amounted to 12 percent, with all major durable goods industries reporting incoming business at rates higher than in April. This rise was somewhat greater than the increase in sales with the result that backlogs moved up. However, at \$45.6 billion, unfilled orders were still \$2.4 billion below their year-earlier volume. New orders for nondurables were up about the same as sales so that order backlogs were unchanged from April.

The first notable sign of accumulation of manufacturers' inventories since liquidation was halted in the third quarter of last year was evident in May. Book values had remained at about \$43.3 billion since October, but in May they increased by \$300 million to \$43.6 billion. Durable goods inventories accounted for a million dollars of the change and nondurables for the remainder.

## Installment Debt Expansion

Consumers have added considerably to their purchasing power this year with generous amounts of new installment debt. In May, installment credit outstanding rose by \$636 million to \$24.1 billion, and was up by \$1.7 billion from the end of 1954.

### INSTALLMENT CREDIT



Source: Federal Reserve Board.

The movement so far in 1955 is in marked contrast to 1954 when consumers generally avoided further additions to their non-mortgage indebtedness. As shown by the chart, the trend of new extensions of installment credit began moving downward after the middle of 1953. Repayments, which depend on past loans and terms of repayment, continued to rise. During the early part of 1954, repayments averaged somewhat more than extensions so that outstanding installment debt declined. Later in the year extensions ran moderately above repayments, but outstanding installment debt did not rise above the December, 1953, peak until the end of 1954.

This year, new loans extended have increased much faster than repayments, rising a half billion above repayments in April and May. This has carried outstanding installment debt to new highs. Most of 1955's installment loans have been made to finance purchases of automobiles. For the January-May period automobile paper accounted for nearly 90 percent of the increase in installment credit.

## Housing Starts Up Seasonally

Nonfarm housing starts increased seasonally in May, by 5,000 units, to 132,000. This was 22 percent above May, 1954, although it was 12 percent below the peak volume of new houses started in May of record-breaking 1950. After allowance for seasonal adjustment, private starts in May represented an annual rate of over 1,300,000 new units. This was unchanged from April, but 100,000 starts below the March annual rate. In the first five months of 1955, 553,500 new houses were started, compared with 453,000 in the same 1954 months and 561,400 in 1950.

The housing boom continued to receive an important stimulus from government-underwritten loans to veterans. Requests for VA appraisals amounted to 71,500 in May, 37 percent above May, 1954. Requests in the first five months of 1955 increased to 319,700 from 186,100 last year. Applications for FHA loans are up less significantly, to 152,800 in the first five months of this year from 125,700 last year.

## Business Failures Still High

Despite the recovery in production and continued advances in trade, business failures have remained high this year. Total failures in the first half of 1955 were down less than 2 percent from the first six months of 1954 when business activity was at the year's low, and they were still a third above the January-June period of 1953. Failures in the first half of 1955 were lower than the previous year in all major industries, although the number of bankruptcies reported among wholesale and retail firms remained almost as high as in the first six months of 1954, whereas at the other extreme, failures in manufacturing and mining were 7 percent lower than the same period of the previous year.

Data on liabilities of bankrupt firms indicate that, for the most part, failures so far in 1955 represent smaller firms than was the case a year earlier. In the first half of 1955, the average bankrupt firm went out of business owing its creditors about \$34,000, whereas in the first half of 1954 liabilities amounted to \$37,000 per firm.

High failure rates this year do not seem to be dampening the entrepreneurial spirit. New corporations in the early months of the year were being formed at a near

record pace of about 12,500 a month. Some of these new firms were merely reorganized failures, but in the first four months of 1955 new companies formed exceeded failures substantially. New incorporations for the period were up 28 percent from early 1954, compared with an advance of 6 percent between the opening months of 1953 and last year, and of 15 percent between 1952 and 1953.

### Rubber Demand at Peak

Stimulated by sharp advances in output of major consuming industries, demand for rubber has picked up considerably this year. Consumption of natural and synthetic rubber dropped 7 percent in 1954, but in the first four months of 1955 had bounced back 24 percent from the same months of 1954. All of the 1954 drop in rubber consumption occurred in demand for synthetic rubber, which was off by nearly a fifth. Use of natural rubber increased 8 percent during 1954. This year synthetic consumption has advanced 36 percent over the comparable 1954 months, to more than recover 1954's losses, and accounts for 56 percent of total consumption. This compares with 1954 when natural and synthetic rubber shared the market about equally.

Although the lion's share of the 1955 increase in rubber demand has gone to synthetic, consumption of natural rubber has continued to increase, by 10 percent, in 1955. Partly reflecting this, and partly because of increased foreign demand, the wholesale price has firmed up somewhat in recent months. The price of smoked sheets at New York was 31 cents a pound in May, 1955, compared with 20 cents in May, 1954.

A dominant element in currently-high-level rubber consumption is record tire output (see chart). The main

factor behind this achievement has been unprecedented automobile production in the first six months of 1955. Tire shipments for new equipment moved up from a low of 1.6 million last fall to more than 4.5 million early this year. Replacement demand, which is highly seasonal, has been well maintained, but despite the increasing number of cars and car-miles driven, it is not appreciably higher than levels reached in comparable months of the past few years.

### Exports, Imports Up

United States exports, after a year of moderate increase, leveled off in the first four months of 1955. Excluding shipments under the Mutual Security program, exports averaged somewhat less than \$1.2 billion each month in the January-April period of this year. This was 13 percent above the first four months of 1954; however, it was down slightly from the monthly average of last year's fourth quarter. The decline from the fourth quarter was in part seasonal and centered largely in cotton, tobacco, vegetable oils, coal, and petroleum. Partial offsets resulted from higher exports of automobiles and some other industrial goods.

Imports in the first four months of 1955 averaged 6 percent above the fourth quarter of last year and 4 percent above the first four months of the year. About half of the advance from the fourth quarter was due to increased demand for foreign foodstuffs, with most of the remainder reflecting increased imports of raw materials required by this country's business expansion. Important products in this rise were petroleum, rubber, wool, copper, hides and furs, and fertilizers.

## Readjustment in 1956

(Continued from page 2)

contractual form, going into debt repayment, pension reserves, and the like. Savings are therefore likely to rise, aggravating the decline in expenditures.

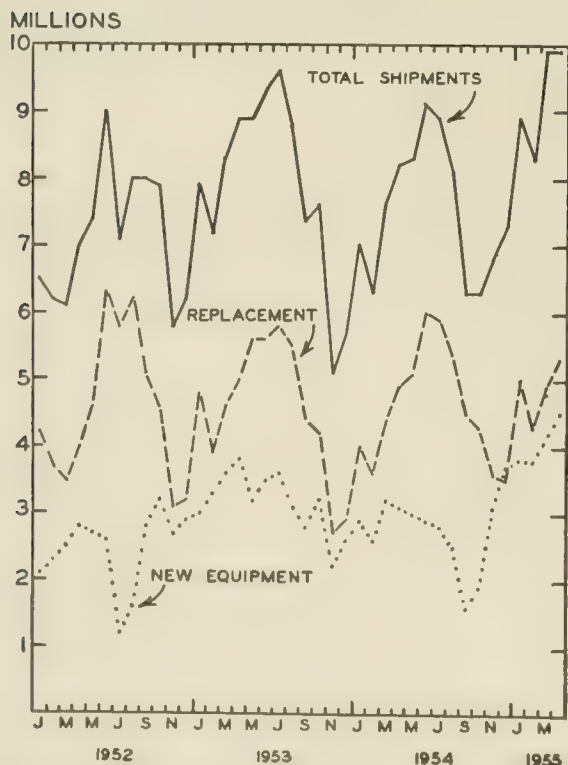
Consumer expenditures will probably continue at or near the current high level during the second half of this year and decline only moderately next year. The decline will be concentrated in the durable goods lines, which are now far out of line on the up side. Expenditures for day-to-day necessities, such as food, gasoline, and household utilities, will continue to rise moderately in 1956. Other goods and services will wind up at various points within the rather broad limits of a sharp decline and a moderate advance.

Combining all the segments, the decline in real gross national product appears likely to amount to something like \$20 billion by the end of 1956, or about 5 percent of the anticipated peak rate. Then it will tend to halt, at least for a time, because reversals in such volatile factors as inventories and consumer credit are completed quickly. Although this readjustment is somewhat greater than any previous decline in the postwar period, it is a moderate recession by past standards. It still fits the pattern of a minor decline in a period of over-all prosperity.

Whether the 1956 readjustment will appear in retrospect as the first year of a major downturn cannot be determined at this time. As the boom grows older, the chances that any recession will assume that character are increased. Caution in business and personal financial policies is in order; but it hardly need be carried to the point of spoiling the good times still ahead.

VLB

TIRE SHIPMENTS



Source: Department of Commerce.



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Easy Clean Up

A first step in the process of keeping rugs, walls, and fabrics clean has been developed by the DuPont Company, Wilmington, Delaware. The chemical, a colloidal silica, is called "Ludox" and may be applied by the manufacturer of materials or may be used in the home. Ludox works by filling all the small crevices in a surface which become dirt catchers. With these areas filled, the dirt cannot penetrate the surface and can therefore be easily removed.

A completely mobile wet-dry vacuum cleaner has also been developed for commercial and industrial use. The Vacmobile comes in three models, capable of handling 1 to 1¾ bushels of dry dirt or 9½ to 12 gallons of liquid. Oversized wheels and non-marking rubber tires make it easily movable even up and down stairs without lifting. Attachments and supplies are carried along with the machine. It is manufactured by the Pullman Vacuum Cleaner Corporation, 33 Allerton Street, Boston 19.

### Business Loans

A contraseasonal and definitely contra-1954 rise in business loans has been recorded by leading banks in the United States since the first of the year. In the first six months of 1955 commercial and industrial loans rose about \$1.2 billion, whereas last year they declined even more than that.

While the shift has been evident in most industries, a few account for a very large measure of the difference. As may be seen in the chart below, the increase in loans to metal producers and fabricators and loans to sales finance companies added \$1.5 billion, or more than half of the difference. Both these gains resulted in part from the boom in the automobile industry. A reversal of inventory policy since last year also produced rises in loans to textile producers, wholesalers and retailers, and

petroleum, coal, chemical, and rubber manufacturers. Public utilities also borrowed more heavily than in 1954.

The only industries not to add even a little to the gain were commodity dealers, and food, liquor, and tobacco. These two groups declined even more than last year in a fairly normal repayment of their fall seasonal borrowing.

Actually business loans began the year with a seasonal slide. It lasted only a month, however, and in February the build-up began. For most industries the rise was persistent. The June 15 tax date brought a surge of \$600 million to double the year's advance in one week; this was largely because booming business had kept firm liquidity low.

### Great Golf!

With golf becoming more and more popular throughout the nation, manufacturers find an expanding market for more convenient equipment. One new product is a four-way Cart-Bag made by the Sit-N-Rest Golf Bag Company, 2404½ West Clybourn Street, Milwaukee, Wisconsin. It is a golf bag with wheels, arranged so that it can be either pulled or carried. The shoulder strap also serves as a hammock-type seat where the golfer may rest while he waits between shots. The bag is made with sleeve-like pockets so that the clubs will not scuff one another; clubs are also carried head down for better weight distribution.

For off-links practice a set of Bakelite polyethylene balls and cups are being marketed by a Minneapolis firm. Set up even in a small yard, a full swing of the club can be used. The game is made by Cosom Industries, Inc., 6012 Wayzata Boulevard, Minneapolis 16.

### Population Mobility

Each year almost 20 percent of the American people move from place to place. More than 29 million persons moved in the year ending April, 1954, in search of better jobs, housing, and climate. That the trend toward urbanization is a major factor is evidenced by the fact that about two-thirds of the movers stay in the same county.

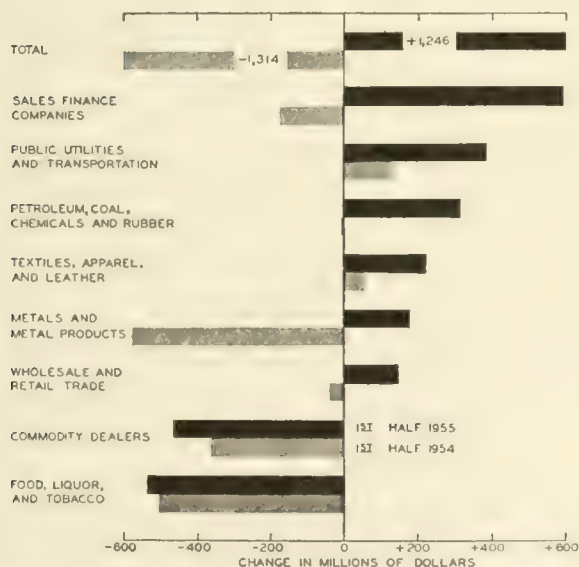
In the other third the number has been about evenly split between those staying in the same state and those crossing state boundaries. Interstate migration has primarily drained from northern New England, the South, and the Great Plains regions toward the Southwest, Great Lakes, and Middle Atlantic areas.

Excluding rural farm areas where the population mobility was extremely low (14.9 percent), more persons living in small areas were in a different home from a year earlier than persons in larger places. The greatest proportion of mobile persons were classed as nonfarm rural.

As might be expected, those in the armed forces and the unemployed were the most migratory groups. Among employed civilians the highest proportion of mobility was found in workers in business and repair services; agriculture, forestry, and fisheries; and construction. Self-employed and unpaid family workers moved least frequently.

Moving was not confined to any particular age group, although in general a greater proportion of young people seek new homes. Between 1953 and 1954 close to 40 percent of those between 20 and 24 years of age changed houses, whereas only 10 percent of those over 65 were movers.

CHANGES IN COMMERCIAL AND INDUSTRIAL LOANS



Source: Federal Reserve Board.

# RECENT MONETARY POLICIES\*

EZRA SOLOMON

Assistant Professor of Finance, University of Chicago

The revival of traditional monetary policy as a prime instrument of economic control is one of the most significant facts of the last few years. The trend began four years ago, but monetary policy has really come into its own again with the Eisenhower administration. Even the Treasury now believes that there is some relationship between interest rates and economic activity!

The Administration has made three claims for the new look in monetary-fiscal policy:

- (1) Prices have been stabilized.
- (2) A potentially dangerous boom was dampened down in early 1953 before it had a chance to develop serious maladjustments.
- (3) The recession of 1953-54 was correctly diagnosed and quickly, correctly, and successfully treated.

All three claims have been disputed—and we have not seen the end of debating on these matters. The debaters have been divided very markedly along party lines, and this makes it harder than usual to sort out the economics from the politics. For this very reason, however, an attempt to make such a separation in the light of economic developments and monetary policies during the past few years is of special interest. There is, in addition, some feeling that real but unrecognized differences in the *goals* of policy have cluttered up the arguments on the *means* by which policy should be achieved. If we examine policy in terms of the three claims mentioned above, we keep coming around to this underlying difference in goals.

## Effects of Money Supply on Prices

The first claim is that the revival of traditional monetary policy and “fiscal responsibility” has stopped inflation. This seemingly academic question is worthy of further consideration because of its significance for the future of prices.

We can interpret the claim itself in two ways. The more sweeping interpretation is that flexible monetary policy *put a halt* to the price inflation that was resulting from previously created excesses in the money supply. The second and more limited interpretation is that the rise in prices caused by previously created money was ending anyway about 1951, and the most that can be claimed for the flexible monetary-fiscal policy is that it has prevented new monetary excesses from developing.

The proponents of flexible monetary policy, by implication at least, seem to make the former, more sweeping claim. Nevertheless, it appears that only the more limited claim is justified. The evidence on which this conclusion is based is the behavior of the velocity of money. The earlier postwar period of price inflation was a result of two factors: first, a steady increase in the velocity of the overabundant money supply created during the war; and second—and less important—the continued additions to the money supply.

The underlying facts are shown on the accompanying chart. By the middle of 1951, the first factor had about ceased to operate. By then the relation of money in existence to gross national product had declined again to

its 1935-39 level. Obviously this is a crude yardstick, but it is a fair indication that by 1951 the enlarged level of activity and prices had about absorbed the enlarged supply of money.

There is a second bit of evidence that supports this thinking. Since January, 1951, we have created new money at a faster rate than it was created between January, 1946, and the end of 1950. Yet prices have been much more stable since 1951. Only the disappearance of increasing velocity after 1951 can explain these phenomena.

There would be no point in belittling the role of flexible monetary policy as a guardian against future excesses. But past excesses must either be destroyed or they must work themselves out through higher prices and activity. Future price inflation can come only if we deliberately create *new* excesses in the monetary supply.

## The “Hard Money” Policy

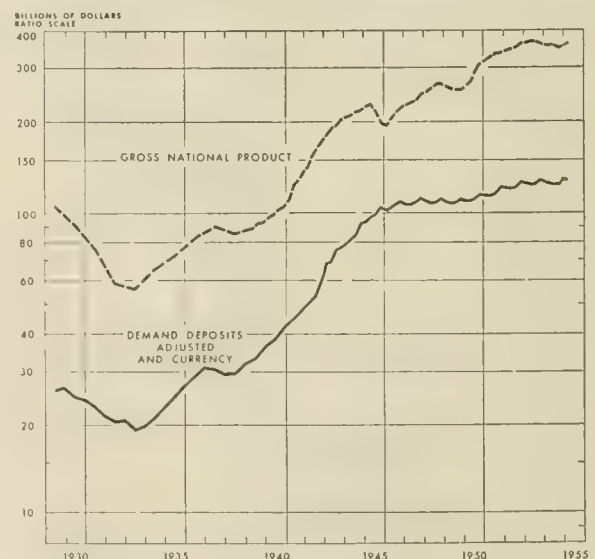
Let us move to the second claim—that restrictive policy in early 1953 prevented dangerous and unsustainable developments and so made the subsequent readjustment a milder one than it might otherwise have been. Although this is relatively ancient history, the bitterness lingers on. Critics who are suspicious of monetary policy or of those who administer it have attacked the restrictive move on several grounds:

(1) It was a misguided move that plunged the economy into a needless recession and threw a lot of people out of work.

(2) This wrong move resulted from the Federal Reserve authorities’ having had a case of the inflationary jitters caught from a Treasury that had a full-fledged inflationary neurosis.

(3) The Administration was unduly influenced by the advocates of “hard money” and used monetary-fiscal

## GROSS PRODUCT AND MONEY SUPPLY



Sources: U. S. Department of Commerce and Federal Reserve Board.

\* This article is adapted from a paper given at the 4th Annual Business Economists Conference, School of Business, University of Chicago, April 26, 1955.



policy as an excuse to pay the big-money boys a higher rate of interest at the expense of the public welfare.

Now that the facts of the spring and summer of 1953 are before us, everybody can use a little hindsight. There is nothing wrong with hindsight as long as it focuses on *what* was right and not merely on *who* was right.

The critics support their case as follows: Prices were stable in 1952-53. Industrial production and the supply of goods were rising very fast. Therefore, the real danger, as anybody should have seen and as events have proved, was not inflation but recession.

This argument leaves out a lot of other important factors on which monetary policy is based. For one thing, the function of flexible monetary policy is to avert inflationary excesses that look unsustainable and not to wait until these have gone far enough to result in a price rise before taking action.

The evidence shows that excesses were developing in 1952-53. Between the spring of 1952 and the spring of 1953, aggregate demand rose about \$28 billion. Over \$20 billion of this was due to a rise in three factors, all based on credit: a rise in the rate of inventory accumulation, a rise in Federal spending, and a rise in on-the-cuff consumer spending. Also, weekly hours in manufacturing had risen to a postwar high and overtime was widespread. Finally, there was no evidence then that the fighting in Korea was shortly to end.

Perhaps the Federal Reserve authorities went too fast and too far in their restrictive policy, but the idea of restriction was quite justified by the facts available.

With regard to the accusations about the swift change in interest rates in early 1953, there appears to be a misunderstanding about how monetary policy operates. The only way monetary policy can do its job as a stabilizing device is by destabilizing interest rates. When aggregate demand runs ahead of a normally growing supply of money, interest rates tend to rise. This is a good sign of a developing boom. The way in which monetary policy can iron out the boom is to make money even tighter than it would otherwise be, and this causes interest rates to rise faster. The selection of a 3¼-percent rate for the Treasury bond issue in May, 1953, was in accord with the market rate at that time. The selection of a long maturity merely reinforced Federal Reserve policy.

The suggestion that the 3¼-percent rate was a deliberate attempt to give financial institutions a bonus at the expense of the taxpayer and the worker simply ignores the facts, especially the fact that the yield on this bond rose after it was issued.

In all fairness to the critics, however, one must add that the new administration brought some of these accusations on its own head. Prior to the spring of 1953, we heard altogether too much about the restoration of hard money and the gold standard and the return of the 100-cent dollar. Just what a 100-cent dollar means is hard to tell, since there has never been any other kind of dollar, but it somehow gave the impression that all of us were going to be carted back to a 1913 price level. We can be glad to find now that the gold standard talk has stopped and that a *sound* dollar does not mean a 1913 dollar after all, but simply a 1953 dollar that does not continue to lose any more of its purchasing power.

### Prompt Reversal of Policy

Turning now to the recent recession, 1953-54 is the best example we have of correct diagnosis and speedy action against a downturn. The quick reversal of Federal Reserve policy in 1953 was about as perfectly timed as

reasonable men can expect of other men. We can hardly expect the Federal Reserve authorities always to be as wise and as lucky in the future. This would be asking too much. However, the persistence with which the Federal Reserve pursued its policy of active ease was not a matter of luck but of deliberate policy. This persistence really had an effect. The money supply actually continued to grow, and interest rates fell. Certainly the long-term rate fell faster than ever before in this country.

Like the sharp rise in early 1953, this is precisely the way it should be if monetary policy is to achieve its purpose. The financial community on the one hand and the proponents of easy-money on the other should learn to accept this fact: If monetary policy is going to be used to increase the stability of economic activity and general prices, it is going to have to increase the fluctuations in the price of money — and this means in *both* directions.

Fiscal policy and other governmental action also played a big part in lessening the impact of the downturn. So did the automatic stabilizers. Forgetting for a while about one of their favorite goals — the lengthening of the debt structure — the managers of the public debt also helped the recovery by not putting out a long-term bond that might have diverted funds from the active construction sector.

Since October, 1954, we have had recovery on a widening scale and this recovery is now in full swing. But in spite of this apparent success with which the recession has been handled, the over-all conduct of policy in 1954 has been severely criticized. There is little point now in recounting the arguments and counter-arguments that can be advanced concerning the dozens of technical and economic points involved. It is becoming fairly clear that the true differences are not really technical or altogether economic. The really basic difference is hidden within the one phrase nobody quarrels about — *maximum employment and growth*.

The latest game in macro-economics is to make projections of the gross national product for 1965 or 1970, assuming that maximum growth and employment are maintained. Oddly enough, the various projections of "normal" GNP and normal employment for 1965 lie much closer together than do the analysts' current definitions of normal GNP and normal employment for 1955! When alternative targets for GNP are \$25 billion apart, there really is not much point in spending much time trying to debate the goodness or badness of policy.

These different concepts of "normal" are in turn the result of exaggerated fears about the dangers that await the economy if it should stray off the mid-line of ideal noninflationary growth. One group has an exaggerated fear of Federal deficits and of inflation; and the least error in this direction tends to bring on a nightmare in which widows and orphans starve and society is destroyed. The other group has an exaggerated fear of unemployment and tight money; in their nightmares, men stand in the soup lines and bankers grow fat on 5 percent.

Since 1946, we have seen both groups in the critics' gallery and have heard their anguish. We will continue to have these divisions in society because it exists in a small way in each of us. Fortunately, over the long pull, the American economy seems by and large to grow and develop more steadily than either of these extremes might seem to indicate. Except for periods when we seem to have done our best to make it do so, it has not left us stranded for long either on a plateau of stagnation or on the treadmill of inflation. And, barring war, this is the way it will probably continue to grow in the future.

# LOCAL ILLINOIS DEVELOPMENTS

A mild upward movement characterized Illinois business activity in May. Construction contract awards established another high during the month with a total of \$241 million, 3 percent ahead of April's record and 78 percent higher than May, 1954. Three other indicators were also more than 20 percent above their year-ago levels—petroleum production, life insurance sales, and steel production and percent of steel capacity in use. Electric power production, coal production, and bank debits were more than 10 percent greater than in May of last year.

## Coal Production, 1955

Temporarily at least, coal production of Illinois mines is making a comeback. May tonnage aggregated 3.2 million tons, the highest recorded for that month since 1951. Extraction in each of the first five months of 1955 has been well ahead of the corresponding month in 1954; in total, Illinois mines have yielded 15 percent more so far this year.

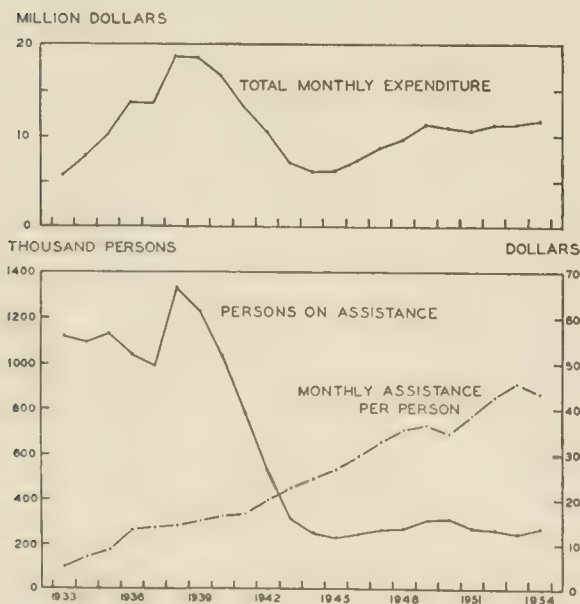
Williamson County has been the top producer, followed by Christian, Fulton, and Franklin counties respectively. These four have been among the top coal counties for several years, although as recently as 1949 Williamson ranked only seventh in the State.

Not all mines and companies have fared equally well. In West Frankfort depletion resulted in the closing of the Orient Mine No. 1, whereas Orient No. 3 near Waltonville is undergoing expansion. Poor market conditions have resulted in the layoff of about one-eighth of the miners at the Buckner mine near Johnston City. The Peabody Coal Company has also closed marginal mines, primarily in Saline County.

## Public Assistance

Rising unemployment in 1954 resulted in the first increase since 1950 in the number of persons receiving aid from the State. The number of persons receiving disability assistance was also up, but declines were registered for the old age, blind, and child aid rolls.

ILLINOIS PUBLIC AID, 1933-54



Source: Illinois Public Aid Commission.

Despite the clamor about rising aid rolls, persons receiving aid are considerably fewer than during the 1930's. The average in 1954 was about 270,000, only 20 percent as many as in the high year of 1938, even though population has grown substantially.

Monthly expenditure totals have not followed this declining pattern, as may be seen in the accompanying chart. This is because expenditures have moved largely as a function of the average assistance paid per person rather than of the number of persons, except during the period from 1938 to 1943 when there was a large decline in rolls. In only two years, 1950 and 1954, has the average payment failed to rise above the preceding year; this trend chiefly reflects higher living costs and wages. The primary reason for the declines in those years was the increased importance of unemployment compensation to the total, a program where monthly payments are relatively smaller than average.

## Sales Tax Hike

Effective this month, Illinois shoppers will pay 2.5 to 3 cents tax per dollar of goods bought, rather than the 2 cents required of them for the past 14 years. The first half-cent will be an increase in the State levy, voted by the legislature in June. The other half-cent, almost certain in Chicago and probable in other large cities, may result from a bill which authorizes city governments in the State to impose a tax of one-half of 1 percent.

Two other additions to the sales tax program were also approved. One provides for a "use" tax equal to the State sales tax on out-of-state purchases made by residents of Illinois. The other taxes contractors on the price which they pay for appliances provided in new homes.

## Agricultural Prices

June reports indicate that farm prices in Illinois have veered slightly from their downward path. Prices rose to 83 percent of their 1947-49 average, still a far cry from the 111 percent recorded in April, 1951. The parity ratio is only 84 in the State as compared with 86 in the nation, where prices have not fallen so rapidly.

If prices are compared in absolute terms instead of parity ratios, it appears that Illinois farmers are no worse off than the average for the nation. In terms of actual June prices Illinois farmers were receiving more for their livestock, which accounts for a major part of their total receipts, than were farmers generally. And even though most grains were priced a few cents lower per bushel in Illinois, soybeans were higher.

The method of computing the parity ratio is partly responsible for the apparent discrepancy between the ratios and actual income. First, the ratio compares prices received at different times within the same area; it does not compare prices between areas. Thus prices could decline relatively more in one area than in another, resulting in a lower ratio, and still remain higher in absolute terms. Second, prices paid are determined only for the nation as a whole, and the parity ratio for a region compares prices received in the region with prices paid in the nation. Since prices paid would probably decline somewhat with prices received, the ratio for a region is likely to be understated if prices are declining faster in the region than the nation and overstated if they are rising faster than in the nation.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

May, 1955

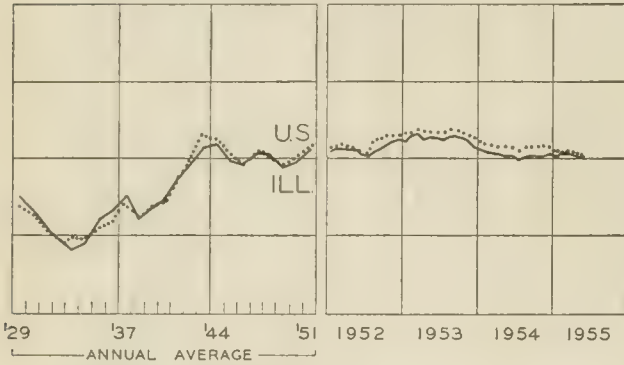
		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>5</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b>							
ILLINOIS		\$37,766 <sup>a</sup>	949,068 <sup>a</sup>	\$557,590 <sup>a</sup>		\$14,089 <sup>a</sup>	\$13,328 <sup>a</sup>
Percentage change from	{ Apr., 1955	+9.1	-2.3	+1.9	0	+5.4	-6.1
	{ May, 1954	+142.2	+7.1	+7.0	+4	+11.6	+3.3
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b>							
Chicago		\$28,028	724,477	\$400,272		\$12,927	\$11,606
Percentage change from	{ Apr., 1955	+22.9	-2.5	-0.0	+3	+5.9	-6.3
	{ May, 1954	+547.9	+5.1	+5.2	+4	+11.8	+2.9
<b>Aurora</b>							
Aurora		\$ 676	n.a.	\$ 8,439		\$ 53	\$ 115
Percentage change from	{ Apr., 1955	-20.1		+8.0	-11	+3.5	-7.1
	{ May, 1954	+0.1		+14.8	+9	+15.6	+8.6
<b>Elgin</b>							
Elgin		\$ 430	n.a.	\$ 6,013		\$ 35	\$ 82
Percentage change from	{ Apr., 1955	-62.2		+5.8	-10	+2.3	-23.5
	{ May, 1954	-53.3		+11.4	+9	+16.9	+7.1
<b>Joliet</b>							
Joliet		\$ 844	n.a.	\$12,464		\$ 68	\$ 74
Percentage change from	{ Apr., 1955	+5.1		+5.4	+5	-5.6	-23.5
	{ May, 1954	+11.1		+16.5	+21	+20.6	+5.2
<b>Kankakee</b>							
Kankakee		\$ 178	n.a.	\$ 6,107		n.a.	\$ 38
Percentage change from	{ Apr., 1955	-31.3		+11.0	n.a.		-9.5
	{ May, 1954	-6.3		+16.9			+15.7
<b>Rock Island-Moline</b>							
Rock Island-Moline		\$1,342	19,772	\$10,357		\$ 88 <sup>b</sup>	\$ 153
Percentage change from	{ Apr., 1955	+67.8	-6.9	+9.1	n.a.	+1.2	-6.2
	{ May, 1954	-34.6	+10.8	+6.7		+5.0	-6.4
<b>Rockford</b>							
Rockford		\$1,545	33,059	\$18,352		\$ 151	\$ 193
Percentage change from	{ Apr., 1955	-44.1	-6.2	+1.2	-10 <sup>c</sup>	+1.3	-7.2
	{ May, 1954	+37.8	+18.4	+14.4	+5 <sup>c</sup>	+10.0	+8.3
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b>							
Bloomington		\$ 345	6,738	\$ 5,665		\$ 61	\$ 107
Percentage change from	{ Apr., 1955	+24.5	-5.2	+4.9	n.a.	-1.8	-8.3
	{ May, 1954	-33.1	+8.8	+4.9		+11.2	-3.8
<b>Champaign-Urbana</b>							
Champaign-Urbana		\$ 524	9,124	\$ 7,924		\$ 60	\$ 91
Percentage change from	{ Apr., 1955	+13.4	+0.9	+7.5	n.a.	-0.9	-11.1
	{ May, 1954	-58.4	+15.4	+10.8		+19.5	+0.2
<b>Danville</b>							
Danville		\$ 344	9,025	\$ 6,541		\$ 47	\$ 63
Percentage change from	{ Apr., 1955	+31.8	-0.5	+8.7	-11	-0.3	+17.7
	{ May, 1954	+175.2	+3.8	+17.8	+11	+11.2	+18.3
<b>Decatur</b>							
Decatur		\$1,241	26,542	\$11,844		\$ 104	\$ 111
Percentage change from	{ Apr., 1955	+118.1	-1.0	+12.6	-9 <sup>c</sup>	-0.0	-0.5
	{ May, 1954	+62.0	+25.2	+8.6	+1 <sup>c</sup>	+20.1	+2.5
<b>Galesburg</b>							
Galesburg		\$ 337	7,247	\$ 4,546		n.a.	\$ 35
Percentage change from	{ Apr., 1955	-66.3	+3.4	+4.1	n.a.		-0.4
	{ May, 1954	+124.7	+9.7	+9.3			+8.2
<b>Peoria</b>							
Peoria		\$ 616	47,918 <sup>c</sup>	\$19,012		\$ 190	\$ 221
Percentage change from	{ Apr., 1955	-1.0	+1.5	+8.9	-10 <sup>c</sup>	-3.5	-10.6
	{ May, 1954	-62.6	+17.6	+14.4	+7 <sup>c</sup>	+8.6	+7.9
<b>Quincy</b>							
Quincy		\$ 283	8,228	\$ 5,359		\$ 40	\$ 72
Percentage change from	{ Apr., 1955	-53.0	-3.5	+7.2	-20	+8.7	+6.7
	{ May, 1954	-9.0	+9.8	+13.1	-2	+18.4	+3.1
<b>Springfield</b>							
Springfield		\$ 424	28,005 <sup>c</sup>	\$14,151		\$ 106	\$ 239
Percentage change from	{ Apr., 1955	-32.2	-0.2	+7.4	n.a.	+7.2	+13.5
	{ May, 1954	+33.8	+12.4	+10.3		+8.3	+21.5
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b>							
East St. Louis		\$ 180	10,848	\$10,257		\$ 125	\$ 57
Percentage change from	{ Apr., 1955	-21.7	-7.8	+9.8	n.a.	+2.4	+5.9
	{ May, 1954	+1.7	-6.0	+8.9		-5.1	-3.4
<b>Alton</b>							
Alton		\$ 180	12,145	\$ 5,443		\$ 36	\$ 28
Percentage change from	{ Apr., 1955	+16.9	+5.6	+9.3	n.a.	-7.7	-9.1
	{ May, 1954	+2.3	+15.8	+10.3		+4.7	1.9
<b>Belleville</b>							
Belleville		\$ 249	5,940	\$ 4,844		n.a.	\$ 42
Percentage change from	{ Apr., 1955	-38.2	+2.2	+7.3	n.a.		+8.1
	{ May, 1954	+139.4	+10.0	+10.2			+6.1

<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for April, 1955, the most recent available. Comparisons relate to March, 1955, and April, 1954. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

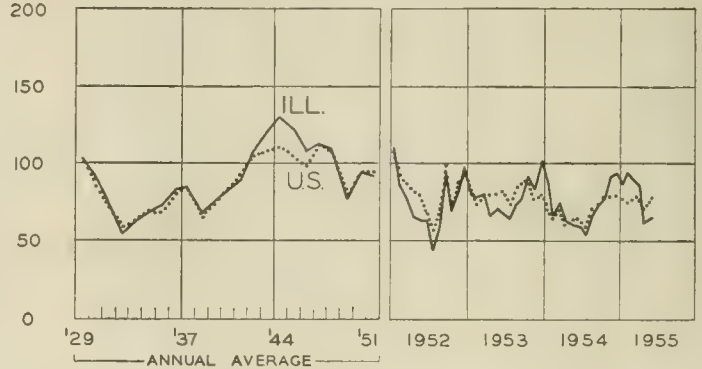
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

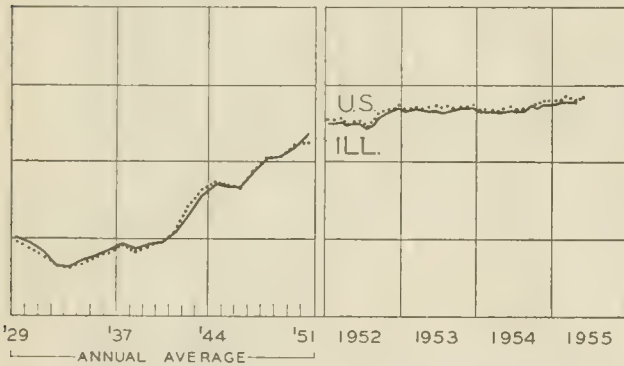
EMPLOYMENT - MANUFACTURING



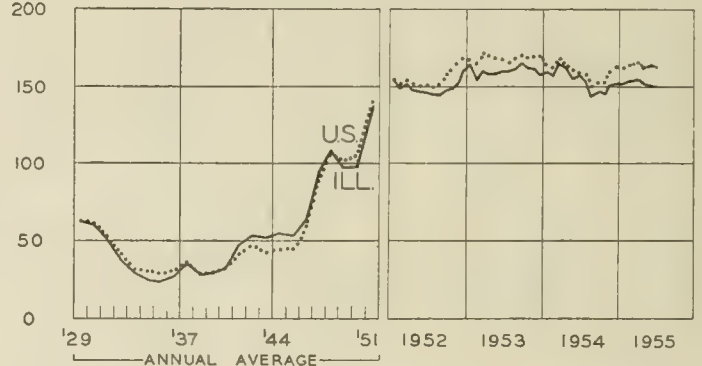
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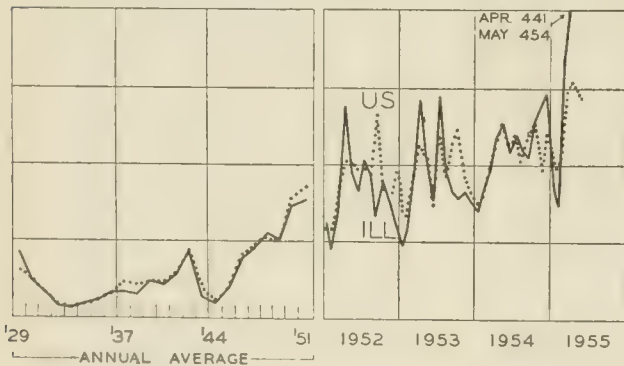
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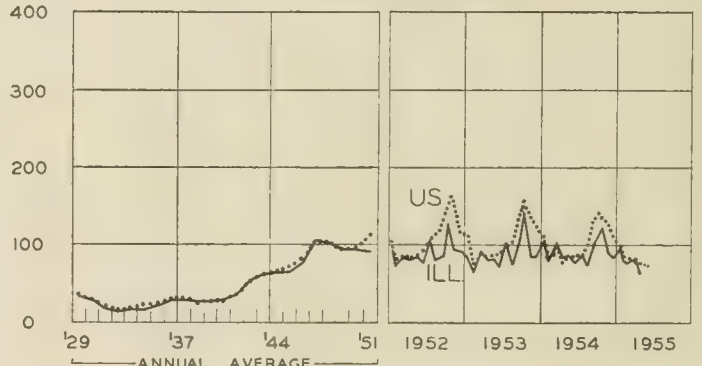
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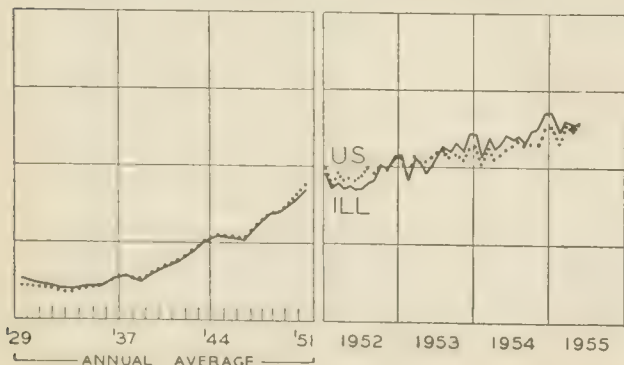
CONSTRUCTION CONTRACTS AWARDED



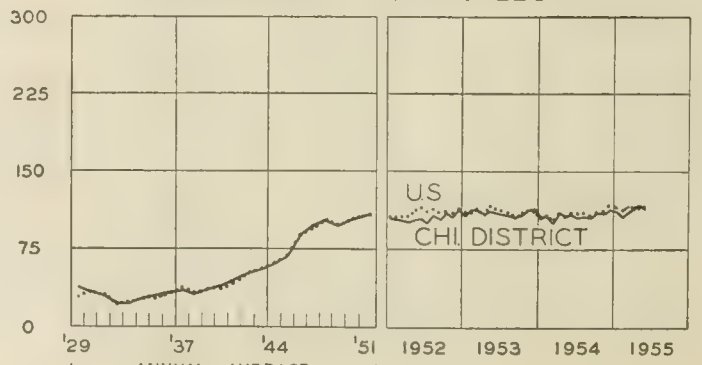
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
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## HIGHLIGHTS OF BUSINESS IN JULY

Industrial activity remained high in July despite labor difficulties and vacations. The boom in passenger car output continued as manufacturers built up inventories to cover the changeover period. The steel industry operated at 90 percent of capacity or better; some plants were scheduling capacity production as demand held at peak levels. Soft coal output exceeded 9.7 million tons weekly at midmonth and electricity production continued to set new records.

Department store sales were running well ahead of 1954 in all districts. Early July weekly gains over corresponding weeks of last year amounted to 10 percent or more for the nation. For the year to mid-July, department store sales were 6 percent ahead of 1954.

### Crop Estimates

Government agencies and others trying to solve the problem of surplus farm products will get no aid or comfort from this year's prospective harvests. The July 1 report of the Department of Agriculture indicates that 1955 will be the second highest production year on record. Despite a 5-percent cut from last year in acreages planted, output is expected to be about 4 percent greater. Less insect damage, better weather conditions, and higher per-acre yields account for the difference.

Higher production of corn, oats, barley, soybeans, and peanuts will more than offset lower output of wheat, cotton, tobacco, rice, and sugar. The corn crop is expected to be as much as one-sixth greater than last year's. Better weather has more than made up for an acreage cut of approximately one-eighth. Soybean acreage is the highest on record; but the wheat crop anticipated is somewhat smaller than that of 1954.

### Profits at High Level

First quarter profits for American manufacturers reached the highest level for that period in four years. After-tax earnings of \$3.3 billion were 9 percent above the fourth quarter of 1954 and 29 percent over earnings for the first three months of 1954. This high level of profits resulted from booming sales in nearly all lines of business. Total

Because of the annual vacation of the University Print Shop this issue of the *Review* is reduced in size. It omits the usual statistical data, which are generally not yet available. We shall be glad to send copies of the missing tables to anyone requesting them. The next issue will contain the usual 12 pages.

manufacturers' sales for the first quarter were estimated at \$65.6 billion, up 2 percent from the previous three months and nearly 8 percent from the corresponding period of 1954.

Early reports of second quarter earnings indicate a continuation of this high-earnings trend. Gains over the second quarter of 1954 were widespread and frequently were very large, with profits reaching record levels in many cases. Advances over last year were particularly large for primary metals firms and for some auto companies.

### Housing Starts Seasonally Lower

A slowdown in private building cut nonfarm housing starts from May to June. Despite the seasonal decline of 3,000 units to 129,000, however, the June level was still well above the corresponding month of 1954 and was the third highest June on record. The seasonally adjusted annual rate for the month was slightly over 1.3 million units, substantially less than last fall's rate of building.

In general, the homebuilding picture remains spotty. Some large cities are reporting fairly widespread cut-backs with builders finding financing somewhat tight and starting only enough new homes to keep their workers together. In other locales, residential construction continues at a high level and demand for new housing remains strong.

Another facet of the housing situation has been covered by the Department of Commerce in a recent report on vacancy rates which gives an over-all rate of 2.2 percent. A rate as high as 4 or 5 percent is not considered disturbing. Although the recent low figure may be encouraging to those who fear overbuilding, it balances shortages against surpluses, and therefore does not reflect housing needs in any single area.

Further declines in homebuilding are expected as a result of the joint action of the Federal Housing Administration and the Veterans Administration in tightening their mortgage terms at the end of July. Under the new rules, higher down payments will be required and mortgage periods will be shorter.

# ILLINOIS BUSINESS REVIEW

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## House of Cards

The stock market is high!

This fact warns of a danger. Take heed, but don't think it tells the whole story. It is in itself no good reason for thinking either that the market can't go higher still or that a decline is imminent.

The situation is one in which both bulls and bears can find reasons for holding to their positions. The bulls can point to rising earnings and the absence of weak, speculative holdings on slender margins. The bears can draw analogies with 1929, describe "technical" weaknesses in the market, and cite the narrowing of the gap between dividends and interest yields on bonds. At the moment, the argument cannot be conclusively decided in favor of either; but in terms of what is happening, the bulls have the better of it, because the market keeps moving up.

### Character of the Market

It must be conceded that signs of speculative fervor are missing from the current market. Borrowing, though rising sharply in the last year, is still low in relation to total values. Volume of trading is within the bounds of normal business. The excitement usually attributed to the uninformed public just isn't there. The public, by and large, has preferred to turn funds over to financial institutions, to let professionals do the investing. According to the Federal Reserve Survey of Consumer Finances only 8 percent of the families own common stocks.

The institutional investors, on the other hand, have shown less restraint than the public. They are wild about the future of high-grade investment issues, the so-called "blue chips." The rise in their favorite issues has been sufficient to discount future as well as present high earnings; dividend yields on many of those issues are now well under the yields on high-grade bonds. This kind of selective rise has typified the tops of earlier boom markets.

Other signs that the market may be topping out are not hard to find. Dividend yields have been declining steadily; the margin between stocks and high-grade bonds is low, and that between common stocks and high-grade preferred stocks has been wiped out. The proportion of common stocks in new issues has been rising; and it is even higher than the figures show, because convertible

bonds depend for their market on the conversion feature and are, in effect, indirect stock issues. Furthermore, the credit position is deteriorating; not only are customers' debit balances on the increase but free credit balances have been declining since early 1955.

Like high prices themselves, however, all these market symptoms fail to provide a conclusive answer. If such an answer is to be found, it must be sought in the relation of the stock market to the state of the whole economy.

The professional investors are, of course, sophisticated enough to know that market prospects must be evaluated in relation to economic prospects. Corporate earnings have risen sharply in the recovery, partly because they are no longer restricted by the excess profits tax. The rise in stock prices, it may be argued, has on the whole been no more than enough to discount higher 1955 earnings. Perhaps this is true, but whether prices have more than discounted 1956 earnings remains the critical question. Many optimists give a favorable answer because they expect good business to continue through 1956, and even beyond.

Those who look for prosperity to go on indefinitely often cite the government's responsibility for economic stability as a reason for confidence. This, however, is a dubious argument in relation to stock prices. Nothing the government can do to support the economy in a decline will help to maintain stock prices in the early stages. But if the government should act to curb inflation while the boom is still going on, stock prices might be immediately depressed.

### Mutually Supporting Instabilities

What seems clear is that the market has been able to get where it is only because of an atmosphere of all-embracing optimism. This optimism grows in part out of the facts of the boom, but it also feeds on the rise in stock prices. It is a typical state of mind at the end of a long prosperity. All the declines in those years of prosperity have been minor. Therefore, it seems that all future declines must be minor, too.

Given the boom, there is nothing wrong with the market. If activity and earnings hold up, there is no reason the market should decline. The professional investors point this out confidently. But nobody trusts the stability of the market. Many of this group, like the more forthright speculators, are expecting to get out before the break.

The trouble is that in a situation when everybody is trying to beat the gun, very few can succeed. All the rest merely drive prices down that much faster. The absence of margins, and of prospective margin calls, is no real protection against a future collapse of the price structure.

To feel secure, one must fall back on the realities of business prosperity. But, as we pointed out last month, the economic situation is unstable too. The boom is supporting the market, and the market is supporting the boom. The upward spiral of booming business, high earnings, high stock prices, easy spending, and unrestrained optimism builds on itself round by round, though none of these elements can be depended upon to sustain itself very long. All together, it resembles a house of cards, cleverly balanced for the time being, but ready to fall apart when any portion fails to hold up.

The prudent investor does not look for security in such a structure. When potential further gains are small in comparison with potential losses, he lightens his commitments.

VLB



## **VITAMINS FOR HEALTH**

The amount and kind of food a person eats influences his well-being. As a result of achievements in the science of nutrition in recent years, diet has become one of the few determining factors in our destiny over which we have a large degree of control.

Our daily diet consists of five types of substances: proteins, carbohydrates, fats, minerals, and vitamins. Vitamins are needed in order to control the body's use of the other four substances and to protect it from disease. Accordingly, they may be described as "small quantities of substances essential to life."

### **Discovery**

Our knowledge of vitamins is comparatively recent, but the compounds now known as vitamins exerted their effects long before the discovery of their existence. Various deficiency diseases, such as beri-beri, scurvy, rickets, night blindness, and pellagra, have plagued the human race for centuries, but not until the eighteenth century was any progress made toward their cure.

In 1720, Dr. Kramer, an Austrian army physician, recognized that scurvy—the curse of long sea voyages—could be cured by three or four ounces of orange or lime juice. In 1757, Dr. James Lind published a book on scurvy in which he emphasized the value of fresh fruit in the treatment of the dreaded disease. By 1804, all British naval vessels included lemons—erroneously called limes—in their daily rations, with the result that British sailors became known as "limeys."

The first laboratory proof of the existence of vitamins was not provided until after the beginning of the nineteenth century. Through clinical experiments it was observed that certain diets produced certain diseases and that it was possible to cure these diseases by controlling the diets. In 1911, a Polish chemist, Casimir Funk, referred to beri-beri, scurvy, rickets, and pellagra as "vitamine" deficiencies. While the attributes of an "amine"—a group of chemical compounds from which vitamin derived its name—were not common to all substances of this type, he thus coined a new word and created a label for a new department of knowledge.

As new substances were discovered they were given letter designations and become known simply as vitamins A, B, C, D, E, and so forth. Later, many of these substances were found to contain more than one related crystalline substance, and as a result, letters with subscripts such as B<sub>1</sub>, B<sub>2</sub>, and B<sub>12</sub>, were adopted. However, the current trend is to refer to a new vitamin by its chemical name only. New methods of isolating food ingredients have increased the list of vitamins known to medical science to where it currently includes more than 40 essentials for proper diet.

### **The Industry**

Today, the large-scale manufacture of vitamins is one of the important contributions of the drug and pharmaceutical industry. In 1954 the retail value of vitamin concentrates was \$235 million as compared with \$90 million

in 1940. Of this amount, drug store sales accounted for 79 percent. Next in rank, percentagewise, were hospitals with 6.5 percent, followed closely by house-to-house vendors with 5.7 percent. Department stores, grocery stores, mail order houses, and other miscellaneous outlets accounted for all other sales.

Illinois is listed as the fourth ranking state in the nation in the production of vitamins. More than 100 firms are locally engaged in the manufacture or distribution of vitamin products, with approximately 10,000 workers employed in the industry.

The Abbott Laboratories in North Chicago ranks as one of the leading domestic producers of pharmaceuticals, medical chemicals, biologicals, and vitamin products. Vitamins, Incorporated, with headquarters in Chicago, operates nine warehouses and processing plants, produces 50 percent of the natural vitamin A concentrate in the United States, and is the largest producer of vitamin D. In addition, Dawe's Vitamins, Incorporated, Kraft Chemical Company, and Vi-Co Products Company of Chicago, Douglas Chemical Corporation of Evanston, and Lincoln Laboratories Incorporated of Decatur—to name but a few—are also engaged in the manufacture of vitamins.

### **Research**

During the 1930's vitamins became a fad. It was implied that extra vitamins could keep hair from turning gray, cure tuberculosis and alcoholism, brighten eyes, quiet nerves, and strengthen teeth. In the reaction from the first wave of enthusiasm it was pointed out that extra vitamins were good only in the cure and prevention of "deficiency" diseases and that uncontrolled use could be harmful. Today, however, experiments with increased dosages have confirmed some of the earlier claims.

Recently, the lengthening of the average lifespan has shifted the emphasis in vitamin research to older people. In 1954 there were 20 million people over 60 in this country, an increase of 42 percent over 1940. Indications are that vitamins are among the major reasons for this increase. It has been proved that an added intake of certain vitamins has increased the lifespan of laboratory animals, but there is no immediate way of proving it clinically with people. It may take as long as a hundred years to get statistical data from insurance records to verify this point.

One may obtain all the nutrients he needs from an adequately varied diet, but nutritionists will admit that very few people in the United States—let alone the rest of the world—consistently maintain diets that are adequate in all respects. In the presence of such conditions it may be worth while for some people to take multi-vitamin capsules daily. In many instances vitamins have proved beneficial in addition to a well-balanced diet and many mental and nervous disorders have been successfully treated with B-complex vitamins, but scientists are still too engrossed in clinical and laboratory studies of the nutritional aspects of vitamins to answer positively one way or another.

# KNOW YOUR STATE

# RECENT ECONOMIC CHANGES

## Retail Business High

Buoyed up by rising personal incomes, a substantial increase in the use of credit, and optimistic attitudes on the part of consumers, retail sales have surged ahead this year to new record levels. In June, sales totaled \$15.6 billion, the same as in May after seasonal adjustment, but 6 percent above June, 1955.

Sales for the first six months of 1955 were  $7\frac{1}{2}$  percent above the first half of 1954. As illustrated by the chart, sales of all major retail store types were higher in the first half of this year than last. However, the advance in total sales in 1955 has been dominated by record-level sales of automobiles which accounted for more than a fifth of total retail sales in the first half of 1955. As the chart shows, automobile dealers represented the only major category of retailers for which the increase in sales was substantially greater than the increase in total sales.

Some of the groups with the larger increases in sales this year are those whose sales were off relatively most between the first halves of 1953 and 1954. The largest declines for that period were in the lumber-building-hardware group and in the automotive group. Declines also occurred in the apparel, general merchandise, and furniture and appliance groups a year ago. On the other hand sales of retail service stations led the list in gains for the 1953-54 period with an advance of 8 percent, the same as this year.

## Federal Income, Outgo

The Federal government closed its books for fiscal year 1955 with a budget deficit of \$4.2 billion. Revenue for the year ended June 30 amounted to \$60.3 billion and expenditures to \$64.5 billion. Both receipts and expenditures were down from fiscal year 1954—by 7 and 5 percent respectively—but because of the larger cutback in receipts, fiscal 1955's budget deficit was about \$1 billion higher than in fiscal year 1954. Nevertheless it was well

below the deficit of \$9.4 billion run up in fiscal year 1953 when expenditures were \$10 billion above 1955 and receipts only \$4.5 billion higher.

The reduction in the Federal government's income between fiscal years 1954 and 1955 was to a large extent a reflection of the \$7.4-billion tax reduction program and lower corporate profits. Almost all of the main classifications of receipts were somewhat lower last year than the year before, with the most significant declines in corporate income taxes, which declined 15.1 percent to \$18.3 billion, and in individual income taxes, which were down by 2.3 percent to \$31.6 billion.

For the fiscal year to end next June, receipts are estimated at \$60 billion and expenditures at \$62.4 billion. If these estimates are borne out in fact, the anticipated deficit for fiscal year 1956 of \$2.4 billion will be the lowest since fiscal 1951 when the government ended the year with one of its few postwar budget surpluses.

## Liquid Saving Rate Down

Individuals put \$1.7 billion into various forms of liquid saving during the first quarter of 1955, the lowest first quarter volume since 1951. The increase in liquid saving compares with additions of \$2.8 billion in the first quarter of last year and \$1.9 billion the year before. The lower rate of saving early in 1955 primarily reflects substantial growth in individuals' debt, which amounts to negative saving and offsets increases in liquid asset holdings. During the first quarter, individuals went \$2.7 billion further into debt on their mortgage accounts, compared with \$1.4 billion a year ago. Other debt, consisting largely of installment loans, changed only slightly in the first quarter, compared with a cut of \$1.4 billion in such debt last year.

Other changes in the composition of liquid saving between the fourth quarter of 1954 and first quarter of this year were generally moderate. Because of the shift from March to April in the due date of income tax payments, currency and bank deposits declined by only \$700 million, compared with \$2.2 billion last year. However, individuals purchased a half billion dollars more of United States government securities in the first quarter of 1955 than last year. Most other types of liquid saving were about the same as a year ago.

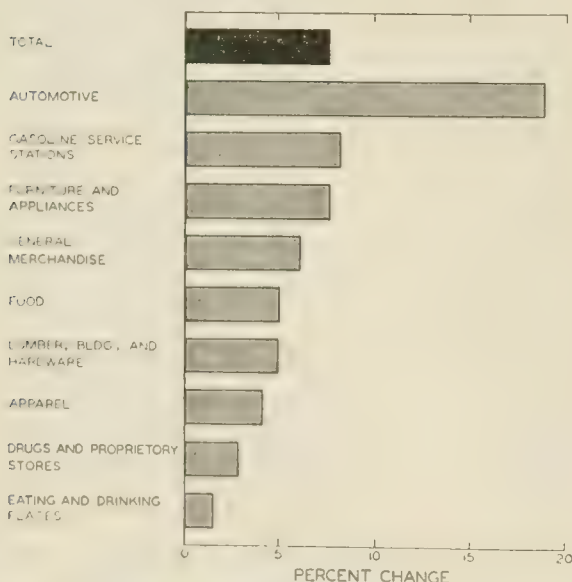
## Working Capital Continues Upward

Corporations added \$2.3 billion to their net working capital in the first quarter of 1955, more than in any quarter since 1950. The advance resulted from a \$1.7-billion decline in current liabilities and a \$600-million increase in current assets.

The improvement in net working capital was mainly seasonal since the largest change in any of the balance sheet items was a \$2.2-billion drop from the fourth quarter in Federal income tax liabilities, reflecting the larger payment of last year's tax in the first quarter. At the end of March corporate tax liabilities amounted to \$13.4 billion compared with \$15.3 billion a year earlier. Other current liabilities were only fractionally higher than at the end of 1954.

The main factors in the increase in assets were a rise in accounts receivable and a slight accumulation of inventories. These advances were partly offset by a reduction in corporate cash holdings, resulting from the tax payment mentioned above and moderate liquidation of government security holdings.

RETAIL SALES  
Percent Change, 1st Half, 1954 to 1955



Source: U. S. Department of Commerce.



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Suburbanization

Almost half of the construction activity in 1954 was located in the suburban areas of large cities. Only in the South did a greater volume of building take place in the cities than in the suburbs.

#### VALUATION OF BUILDING PERMITS, 1954

Area	Metropolitan areas		Nonmetropolitan areas
	Central cities	Suburbs	
Total.....	31	49	20
Northeast.....	28	62	10
North Central.....	29	52	19
South.....	40	31	29
West.....	27	51	22

Source: U. S. Departments of Commerce and Labor, *Construction Review*, April, 1955.

The residential building was most concentrated, with 57 percent in the suburbs. Surprisingly enough, more than half of the money invested in new factories was also spent in these outlying districts of the industrial centers. To keep up with these trends, spending on mercantile and utility facilities was also greatest in these areas.

Only in office buildings, amusement buildings, and community buildings such as schools and churches did the cities themselves rank highest. The nonmetropolitan areas boasted gasoline service stations as their only first.

### State and Local Public Works

Recently released by the United States Department of Commerce were the results of a survey of construction plans of the large state and local governments in the nation. In all, 4,068 government units were covered, including states, large counties, municipalities, school districts, and special districts. In 1953 these accounted for more than 80 percent of the construction expenditures, so presumably they also account for the major part of future plans.

A total of 71,639 separate projects have been planned, involving the expenditure of almost \$28 billion. Only about 8 percent of these are "ready to go," that is, they could be undertaken in a matter of weeks. Another third could be ready within six months, whereas the great majority could not be made ready for a year or more.

More than half of the projects and 45 percent of the expenditure are planned by municipalities and townships. Almost one-third of the governments surveyed, however, were planning no construction at the time of the study. All of the state governments had projects under way, accounting for another 37 percent of the expenditure, although for many fewer projects.

Highways were the object of the most plans, involving 30,851 separate projects and \$10.8 billion. Educational facilities, the next largest group, amounted to only one-third as much.

### Gardener's Delights

With the "Hydromix" a gardener can fertilize soil, kill weeds, and control bugs while he waters the lawn or garden. The device, developed by the Doggett-Preil Company of Springfield, New Jersey, attaches to the wall faucet and allows soluble chemicals to flow directly into

the hose. Controls permit only the desired amount of each chemical per gallon of water to be dissolved and it automatically adjusts itself to varying water pressure.

Once-a-year fertilizer is a new product of E. I. duPont de Nemours and Company. It is a mixture of methylene ureas that will dissolve slowly, releasing nitrogen into the soil gradually over a period of several months. The fertilizer is called Uramite, and the cost is about the same as for other nitrogen fertilizers.

### Farm-Retail Price Spreads

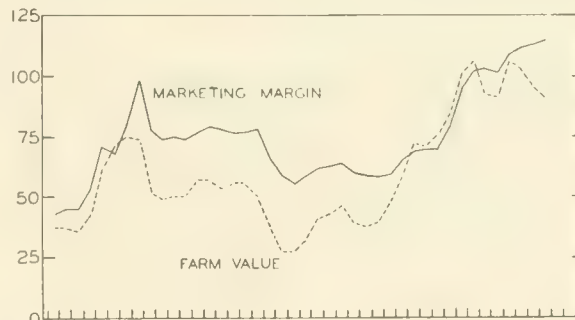
Since 1945 the farmer's share of the retail food dollar has declined by 11 cents, from 54 percent in that year to 43 percent in 1954. Actual prices, on the other hand, remain well above those at the close of World War II. The difference results from the relation of movements in farm prices and marketing charges, as may be seen in the following chart.

Since 1913 there have been only three periods when farm prices have risen faster than marketing charges, causing a rise in the farmer's proportion of the consumer's food dollar. Two of these periods were war booms; the third comprised the years following 1933 when the nation was fighting its way out of the depression.

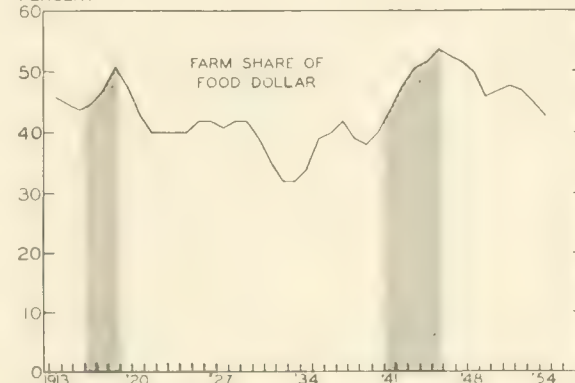
In the early 1920's the war-induced boom was reversed and there was a decline in the farm share. Similarly, we are now in a period of decline as we return to a peacetime economy. Noteworthy in this recent decline is the slight reversal of major trend caused by the Korean upset. Except for this the farmer's share has progressed steadily toward the 40 percent prevailing during the "more normal" 1920's and late 1930's.

#### FOOD PRICES AND THE FARMER'S SHARE

1947-49=100



PERCENT



Source: U. S. Department of Agriculture.

# JOBS, PRODUCTIVITY, AND FULL EMPLOYMENT

RICHARD C. WILCOCK

Institute of Labor and Industrial Relations, University of Illinois

"Well, in *our* country," said Alice, still panting a little, "you'd generally get to somewhere else—if you ran very fast for a long time as we've been doing."

"A slow sort of country!" said the Queen. "Now, *here*, you see, it takes all the running *you* can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!" *Through the Looking-Glass*

Productivity creates a paradox like that in the Lewis Carroll classic. As productivity increases—meaning that for each worker there is *more* output in an hour's time on the job—the economy must "run" faster and faster to keep unemployment in the same place. In fact, output must increase more than twice as fast as the number of jobs.<sup>1</sup>

The ever-growing productivity of United States factories and farms is one of the wonders of the world and it has meant material progress and high standards of living. But productivity by itself does not create prosperity or produce "full employment." As a matter of fact, as productivity rises, it can and does destroy jobs and displace workers. If the displaced workers are not to swell the ranks of the unemployed, the key question then becomes: "Will the *total number* of jobs in the economy expand to match the growth in the nation's population and labor force?"

The economy does, of course, create new jobs with the introduction and development of new products and industries. What is often not fully realized, however, is that in the process of job turnover (new jobs for obsolete jobs) there may be significant *lags*. The data indicate, in fact, that the more rapid and forceful the change the greater the employment lag is likely to be. In the past few years, productivity has apparently been increasing at an above-normal pace. In the last year alone, productivity jumped 6 or 7 percent, according to some estimates, compared with a "normal" 2 or 3 percent.

The charts clearly show why productivity advances make it essential for output to expand constantly if the economy is to stay on an even keel. Chart 1, for example, shows the previously unmatched peaks of production achieved in 1953. The Federal Reserve Board's index of industrial production for that year rose to a high 37 percent above the 1947-49 level. In 1953 there were also more jobs than in 1947-49—about 15 percent more at the peak. In fact, there were enough new jobs so that unemployment was only 2½ percent of the labor force, on the average. Since 2½ percent is generally thought to be about as low as unemployment can average and still permit workers time to move from one job to another, 1953 can be called a year of "full employment."

In the spring and early summer of 1955, total national output has been rising above the 1953 levels. Employment, however, is lagging behind the levels achieved in that year (with relatively little change in hours of work), so that unemployment has been running above the minimum levels of 1953. In June, for example, when the industrial production index hit an all-time peak, unemployment was

4 percent of the civilian labor force. In June, 1953, it was only 2.4 percent. Why this lag in employment and unemployment?

## Productivity-Full Employment Relationship

The number of jobs required to equal "full employment" depends primarily upon the changes in two variables which have been steadily increasing in size—productivity and population. Since in the last few years the labor force has remained at approximately 57 or 58 percent of the adult population, each increase in population has meant an increase in the size of the labor force. Under these circumstances, about 600,000 additional jobs must be created each year to maintain existing levels of unemployment.

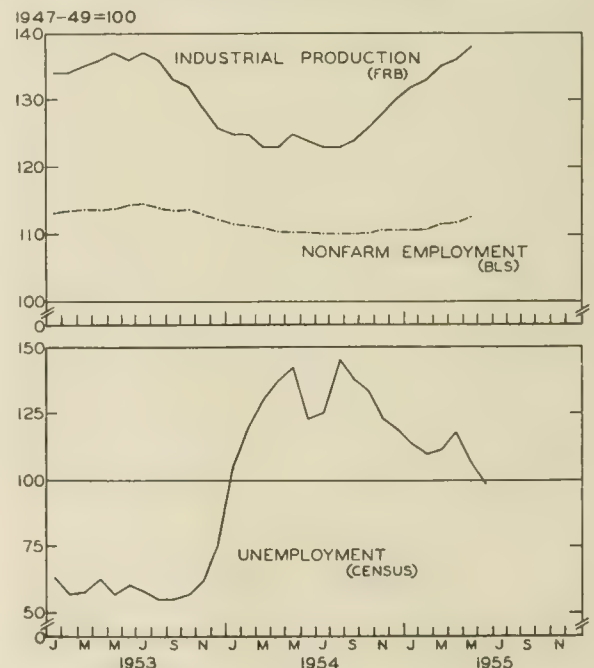
In addition, it is necessary to replace those jobs which disappear as the result of technological change and automation. To create new and replacement jobs, the only answer is a greater total output, and as a matter of fact, an accelerated increase in national output. This would be less true if the hours of work fell off as productivity increased. The factors which contribute to high productivity, however, are just as apt to increase the average number of hours worked as to decrease them.

Thus far in 1955, national output, while setting new records, has not accelerated sufficiently to provide the number of jobs necessary to reduce unemployment to 1953 levels.

## Productivity and Jobs in Manufacturing

In order to explain the lag in employment it is not necessary to look any further than manufacturing. Chart 2 shows that what has happened in the last two years

CHART 1. PRODUCTION, EMPLOYMENT, AND UNEMPLOYMENT



Sources: Federal Reserve Board; Bureau of Labor Statistics; and Bureau of the Census.

<sup>1</sup> Alternatively, everyone could work fewer and fewer hours. A general and continuous reduction in the length of the work week, geared to productivity changes, seems highly unlikely, however, although over a long period of time productivity gains can be and are enjoyed in part in the form of shorter hours.



manufacturing tells much of the story of the productivity-employment-unemployment relationship. The data on Chart 2 have been shown on a first-half-of-1953 base in order to show clearly how output accelerates much more rapidly than employment during an upswing. (On the 1947-49 base, production would be about one-third higher than employment for the most recent data on the chart.)

Durable goods output fell in late 1953 and during much of 1954. Most important in this decline were ordnance (reflecting a decrease in government purchases), farm equipment (reflecting the decline in farm income), transportation equipment (both automotive and freight car manufacturing fell off) and primary metals (the suppliers of steel and other metals to the fabricating industries). Since the summer of 1954, however, durable goods manufacturing has again been on the upgrade. Moreover, the stimulus is coming from consumers and not from government. "Military hardware" remains well below 1953 levels, whereas passenger automobiles and building materials are running above the 1953 levels; machine tool output, although below 1953 levels, is increasing; the production of appliances is equal to the 1953 level.

In autos, home construction, business inventories — indeed, in most goods and services — the United States is having a boom year and perhaps the greatest consumer-inspired boom in its history. One of the key signals of boom times has appeared — more workers are quitting than are being laid off. This means that workers are confident that they can better themselves by voluntarily changing jobs and that employers generally are reluctant to lay off workers and indeed are trying to keep those they have. Yet at the same time, there remains the seeming paradox that unemployment levels are considerably higher than in previous postwar boom periods.

In May, 1955, the seasonally adjusted index of manufacturing output was a point higher than in May, 1953. Manufacturing employment, however, was over 700,000 below that of May, 1953. Thus, while total manufacturing output was approximately the same, the process of destroying and creating jobs had left a substantial deficit.

In this net loss of jobs, 600,000 were in durable goods manufacturing. As of May, 1955, therefore, while durable goods output was almost up to the level of two years before, increases in productivity had resulted in a substantial decrease in the number of jobs.

The effect of increases in productivity on the number of jobs is just as apparent in the so-called soft goods industries of manufacturing. Output in these industries was, in the spring of 1955, *well above* the 1953 level; yet employment in May, 1955, was still more than 100,000 below the May, 1953, level. The increase in nondurable goods output represents higher spending by consumers and, therefore, higher per capita real income and standard of living. Increases in productivity — which made possible the higher incomes — also created the drop in employment.

## Summary and Conclusion

Sufficient data are not as yet available to provide a completely satisfactory interpretation of why, in the midst of a great boom, unemployment has stayed well above the minimum levels achieved in previous years. Analysis of the available data, however, suggests several reasons for this paradoxical situation. In the first place, the very rapidity of the changes taking place creates an employment lag. For various reasons many industries can often increase their output substantially with relatively little immediate increase in employment. Output is in-

creased initially without any increase in "overhead" personnel; hours of work are increased; and productivity takes a sudden spurt (particularly if there has been any "fat" in the payroll).

Secondly — and perhaps more important — shifts in the "product mix" of industry are apt to occur more rapidly in a period of dynamic growth. These shifts in product demands create shifts in the derived demand for labor. Labor demand changes in specific occupations, industries, and locations. One result is localized pools of unemployment, which account for much of the current unemployment total.

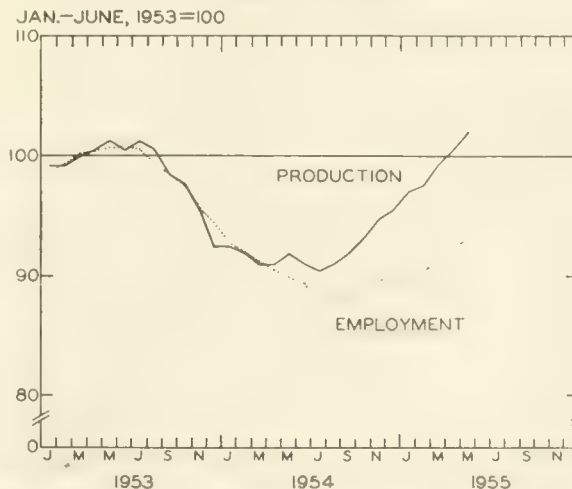
The textile and coal industries provide a case in point. Demand for textile products and coal, in contrast to other products, has declined, while output per man-hour has increased. The combination of these two factors has led to substantial unemployment in textile and coal-mining communities. This unemployment has also tended to persist — even while labor has been in "short" supply elsewhere — because the necessary adjustments, such as movement of new industries into the depressed communities, retraining of workers in new occupations and skills, and migration of workers to areas with more abundant employment opportunities, are slow to take place.

Finally, in a period of rapid technological change, jobs can be destroyed more rapidly than they can be replaced by the demand for new products and by the requirements of new techniques of production. In the past year real income and consumer spending have increased, but the increase has not as yet been large enough to create a "full employment" level under which unemployment would fall to 2 or 2½ percent of the labor force.

Thus, in addition to the lag in hiring (on the part of employers) and the lag in movement between occupations and localities (on the part of workers), there is this third and most important lag — the lag in spending and output necessary to provide the number of jobs called for in a "full employment" economy.

These seem only to be *lags* and not permanent *gaps* between output and employment. If technological change and automation continue to move as rapidly as in the recent past, however, higher rates of unemployment may continue even during "prosperity," as people become isolated in those towns, industries, or occupations with declining employment opportunities.

CHART 2. MANUFACTURING OUTPUT AND EMPLOYMENT

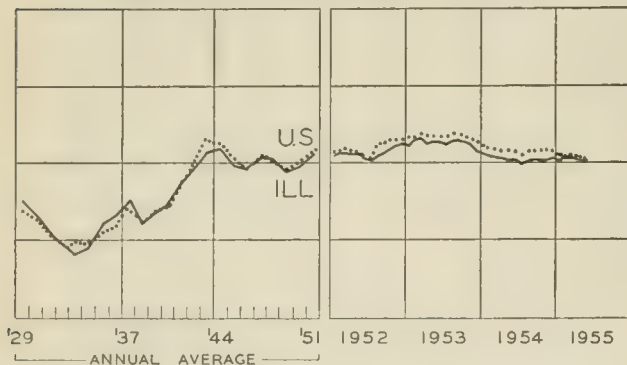


Sources: Federal Reserve Board and Bureau of Labor Statistics.

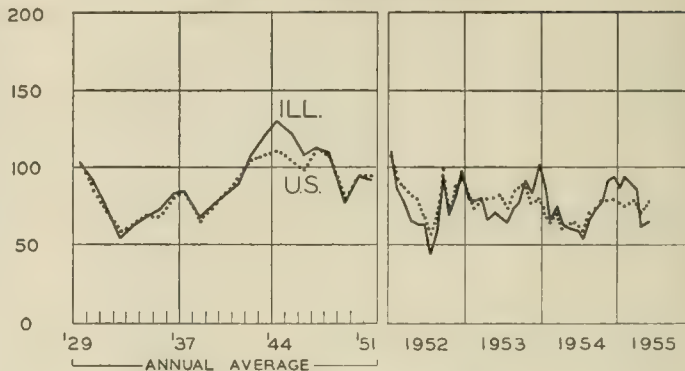
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

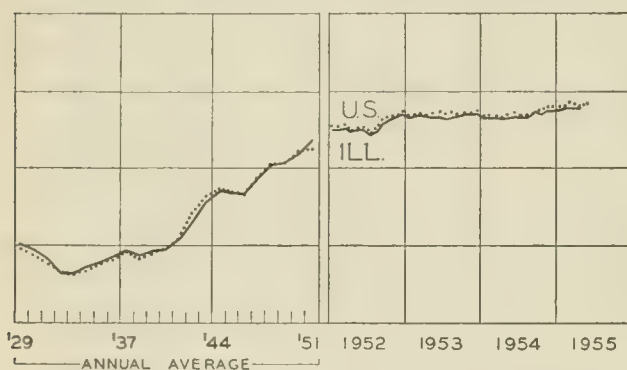
## EMPLOYMENT - MANUFACTURING



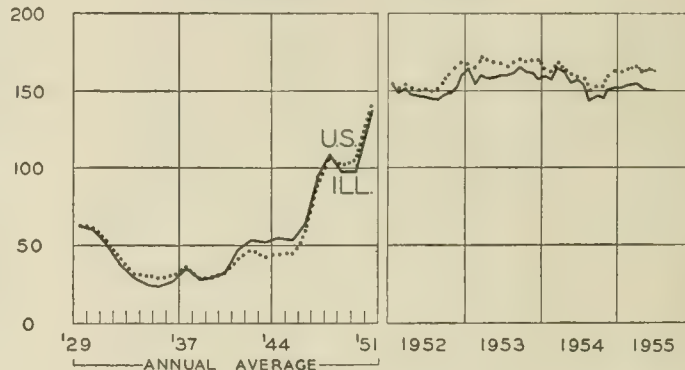
## COAL PRODUCTION



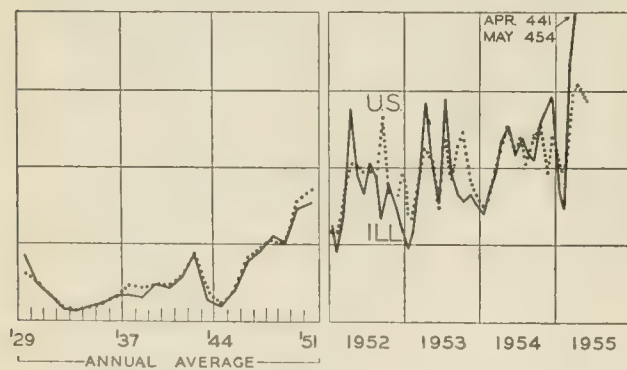
## AVG. WKLY. EARNINGS — MANUFACTURING



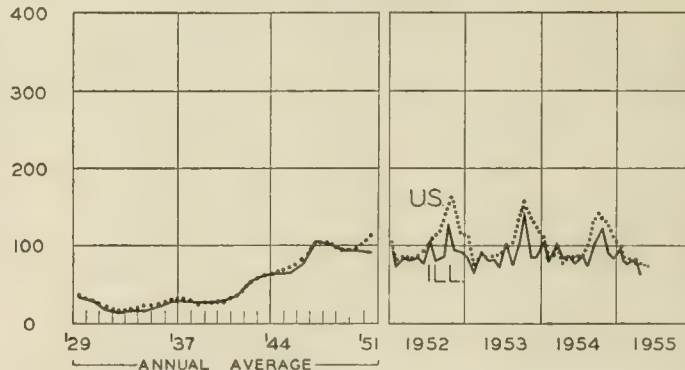
## BUSINESS LOANS



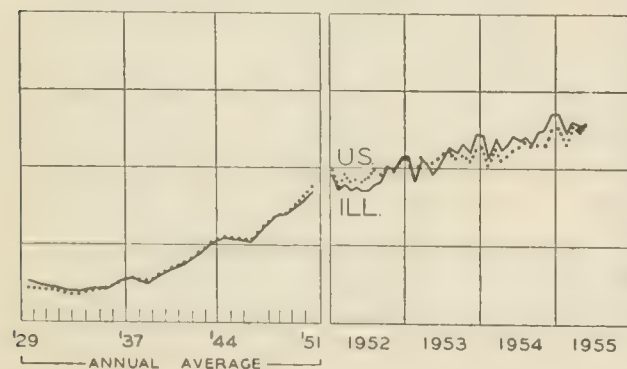
## CONSTRUCTION CONTRACTS AWARDED



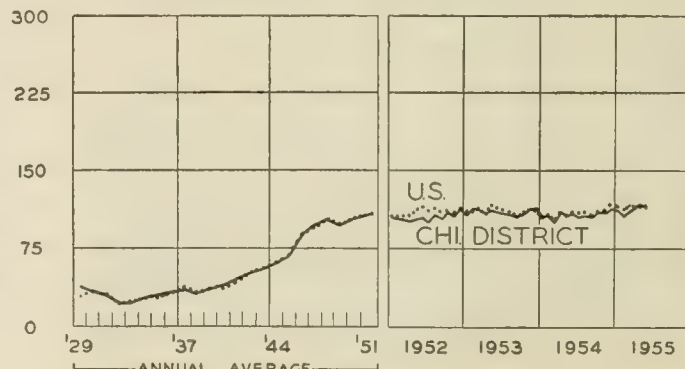
## CASH FARM INCOME



## ELECTRIC POWER PRODUCTION



## DEPARTMENT STORE SALES





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# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .  
BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

VOLUME XII

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NUMBER 9

## HIGHLIGHTS OF BUSINESS IN AUGUST

The usual summer slump in business conditions was hardly in evidence this year. Except for closedowns for vacations, there was little interruption in industrial activity with many basic industries such as steel, copper, zinc, and cement having more than enough orders to operate at or near capacity levels. Considerable activity was also apparent in other sectors with railroad carloadings at high levels, department store sales well above year-ago levels, and bumper harvests expected of most farm crops.

Accompanying this continued high level of activity was a further improvement in the employment picture. Total civilian employment in August reached a record high of 65.5 million, whereas unemployment declined 250,000 to 2.2 million, the lowest since November, 1953.

### Construction at New Peak

Outlays for new construction continued at record levels in August, reaching a new peak of \$4.0 billion for the month. This is 8 percent higher than the previous August high attained last year though it represents only a slight (1 percent) advance from the previous month's level. As in previous months, private construction outlays led the advance with unseasonably sharp increases in store and other merchantile building activity over July. On the other hand, residential building declined counterseasonally, reflecting the reduced number of housing starts during the past two months.

Construction activity for the first eight months of this year reached an all-time high of \$27.1 billion, 13 percent higher than the previous record set last year. Private homebuilding, an upsurge in the construction of stores, restaurants, and garages, and increased military building have been the main factors in the current advance.

### Inventory Accumulation Moderate

Notwithstanding the record production of the past few months, inventories have yet to give any indication of mounting rapidly, according to the most recent figures available. At \$43.9 billion after seasonal adjustment, the value of inventories on the shelves of manufacturers at the beginning of August was slightly above the preceding month's level and only 2 percent above the 1954 low last September.

Retail inventories, on the other hand, have been increasing somewhat. During July retailers' stocks rose

\$200 million to \$23.4 billion after seasonal adjustments, \$900 million more than the value of retailers' inventories last July.

### Credit Conditions Tighten

With business loans rising steadily and consumer debt reaching new peaks, the Federal Reserve System moved to tighten borrowing rates. By the end of August, the rediscount rate of 11 of its 12 member banks had been raised from  $1\frac{1}{4}$  percent to 2 percent, three of these had moved one notch further to  $2\frac{1}{4}$  percent, and further increases appeared imminent. At about the same time, interest rates on loans to savings and loan associations were raised  $\frac{1}{4}$  to  $\frac{1}{2}$  percent by several of the Federal Home Loan Banks, and finance firms generally raised rates on commercial paper.

Nevertheless, bank loans continued to rise. Loans by leading New York City banks in the week ended August 31 rose for the sixth successive week to their highest point since December, 1953. Consumer debt has also been mounting, total installment credit outstanding at the end of July rising to a new high of \$25.5 billion. Continued high sales of automobiles on credit were the chief cause of the increase.

### Improved Budget Outlook

The Federal government in the fiscal year ending June 30, 1956, is likely to incur a deficit of \$1.7 billion instead of the \$2.4 billion originally foreseen by the President last January, according to the official midyear review of the budget. Expenditures for the year are now estimated at \$63.8 billion, \$1.4 billion higher than the original forecast. However, revenues are expected to rise even more, by \$2.1 billion, as a result of prospective higher income tax collections accompanying the high level of business activity.

Most of the increase in the spending estimate is attributed to the farm price support program. Bumper crop yields are expected to double the \$1.1 billion of support outlays forecast last January. Other increases have occurred in foreign economic aid, the postal deficit, interest on the public debt, veterans' benefits, and government pay.

A more optimistic view of the budget outlook is taken by the Secretary of the Treasury who predicts a balanced budget for this fiscal year, apparently based on the belief of a 3-percent reduction in expenditures and even higher revenues than predicted by the Bureau of the Budget.

# ILLINOIS BUSINESS REVIEW

Published monthly by the  
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## Bulwark Against Deflation

A frequent reply to warnings of a possible economic downturn is to invoke the government's responsibility for preventing serious deflation. Sometimes the point is made cynically, disparaging politicians—especially those of the other party—who would buy votes by spending public money. Sometimes it is made approvingly, being cited as an aspect of the tremendous economic progress that has been achieved in the last quarter century. That people with such divergent points of view agree on what must be done is an indication of how widely accepted the idea is.

With the bare bones of the proposition there can be no quarrel. The government will indeed do something about unemployment. Crises have always called forth some action, however late and ineffective it may have been; and never before has the machinery for such action been more effectively organized.

When we ask, however, how *much* government will do to prevent depression, the result is not nearly so clear-cut. Guesses of the net effective increase in total expenditures to be derived from government action in the event of a major decline commonly run to \$10 or \$15 billion a year. Occasionally a larger amount is mentioned. A few take the position, without considering specific figures, that the government is big enough to do whatever is needed.

### The Magnitude of the Problem

There is no doubt that the government has been playing a progressively larger role in economic affairs. A good summary of its importance is provided by Solomon Fabricant, Director of the National Bureau of Economic Research, in the Thirty-fifth Annual Report of that organization. He points out that about a sixth of all employment and personal incomes are derived from government, including state and local units as well as the Federal government. In the economically critical construction and equipment industries, government purchases account for almost two-fifths of activity. The nature of the government's role and how it got to be what it is through successive emergencies is outlined. The influence of government's size on its power as a stabilizing influence is also discussed in general terms.

These facts must, of course, be considered in the setting of the economic situation as a whole. The private

economy, too, is much bigger than ever before, and there is reason to think that it has progressively become more unstable. It is currently at the highs of a great postwar boom. That major cycles have in the past followed wars is more than coincidental. The war produces the situation that calls forth the intensive productive efforts of the boom, and the boom in turn sets in motion the forces of decline.

In the great depression of the early 1930's, there were extreme declines in private investment. From the peak to the low, construction dropped about nine-tenths and producers' durable equipment about three-fourths. Today private expenditures for construction are running in excess of \$30 billion and for producers' durable equipment at close to \$25 billion. Even in a considerably less severe depression than the last, these items together could lose more than \$25 billion from the peak.

To appraise the more volatile forms of investment, it is necessary to think in terms of recent experience. In the decline from the 1951 highs, the annual rate of inventory investment fell \$16 billion from the peak, and the extent of the swing was limited by the fact that there was no real pressure for liquidation. Consumer credit—which may be regarded as business investment in consumers' durables—is also highly volatile. At present the total outstanding amounts to \$33 billion and is expanding at an annual rate of over \$6 billion. In a reversal, a swing of \$10 billion is well within the possibilities. Hence, these short-term investment items may also contribute something like \$25 billion in deflationary pressure.

Adding the long- and short-term factors together indicates that a decline of the order of \$50 billion in the annual rate of private investment alone might have to be dealt with during a major depression. The potential magnitude of such a decline is far in excess of any contemplated government action. Government operations are indeed important, but not yet so large as to ensure stability.

### Restraints on Government Action

An important difficulty in getting effective action to counter a decline arises from the fact that the goals of government action are not purely economic. For this reason, such action must at times be unstabilizing in character. The recession of 1954, for example, was largely the result of cutbacks in military programs. Future cutbacks might be still less conveniently timed.

Even when stimulation of the economy is accepted as the dominant need, it is hard to get agreement on specific action. Many people who apparently believe the government can and will prevent depressions just don't want the government to be as important as it will have to be to do the job. In addition, everyone has his own pet solution and is not satisfied with the other fellow's. This makes for delays and inefficiencies in getting programs underway. Action tends to be delayed to the point where the need is fully apparent, and then the need becomes more acute before it can be made effective.

In part, too, government programs are subject to the same cyclical patterns of behavior as private investment. The military programs may be taken as a case in point. When equipment and supplies have been built up to the level contemplated by established objectives, production must be cut back to the level of current use. The result is similar in effect to the saturation of a private market.

Perhaps more important than the military program in

(Continued on page 6)



### HONEY PRODUCTION

Before the advent of cane sugar, honey was the principal agent used for sweetening. It was of much greater importance to the ancients than to us, and in biblical times was referred to as the "resource of the destitute" because of its high nutritional value.

Today, honey's chief use is as a spread for breads. It is also used in baking breads and cakes since it has a tendency to cause baked goods to remain soft for a considerable time. In addition, it is used in the manufacture of soft drinks, alcoholic beverages, and candy, for moistening tobacco, as an insect attractant in insecticides, for infant feeding, and for many other purposes.

The main source of honey is nectar, the sweet exudation of flowering plants, which is gathered by honeybees and deposited in cells of the honeycomb located in the hive. However, nectar is not honey, and before it becomes the sweet sticky liquid with the affectionate name, it must undergo processing. Changes in the sugary plant juices begin in the honey stomach of the bee and continue in the hive until the substance reaches the altered condition known as ripened honey. Although honey is derived from nectar alone, both nectar and pollen are needed as food by the bees.

#### Beekeeping

The honeybee originally was a stranger to the Western Hemisphere. Bees are native to the Old World and were found throughout Europe, Asia, and Africa. The industry of beekeeping, established for the purpose of supplying honey, was practiced by the Egyptians as early as 2600 B.C., but it was not introduced to this continent until 1634 when the English brought bees to the Massachusetts Bay Colony. The appearance of the bee highly amused the Indians, who referred to it as the "white man's fly."

Modern beekeeping is the art of caring for honeybees so that they may be able to store honey in excess of their own needs for human use. A typical apiary might have several colonies of bees with a colony, consisting of 50,000 to 100,000 bees, assigned to each beehive. The hive is usually located within one mile of a good crop of nectar-producing plants, as bees in Illinois seldom fly further than two miles to gather honey. Under good conditions, such a colony may produce as much as 150 pounds of surplus honey annually. The exact amount varies from year to year because of seasonal and climatic conditions which affect the growth of the nectar and pollen plants as well as the condition of the bee colonies.

Honey appears on the market in many forms, but is originally designated as either extracted honey or comb honey. Although extracted honey represents the bulk of all honey sold, comb honey is the easiest to produce. The bees build and store their honey in separate combs in frames or in small wooden boxes called sections. The product can then be marketed with the wood still around the comb or sold as cut comb or chunk honey. In extracted honey, the honey is removed from the combs by centrifugal force in a machine known as a honey extractor. It

is then heated and strained and put into containers for marketing.

Honeys differ in flavor and color because of the various floral origins of nectar. In Illinois, the main honey flow is obtained from sweet, white, and alsike clover, which yield a good grade honey of a light color and a mild flavor; the backbone of Illinois beekeeping is sweet clover, and when found in abundance it offers ample opportunities for the honey producer.

Beeswax, another product of the bee, is primarily used in the manufacture of church ceremonial candles. However, it is also used in wax polishes, paints, ointments, modeling wax, lithographic inks, cosmetics, and for waterproofing.

#### The Industry

More than 200 million pounds of honey and from four to five million pounds of beeswax are produced annually in the United States. The 1954 honey crop amounted to 217 million pounds of honey valued at \$36 million. This was significantly less than the 273-million pound, \$44-million crop of 1952. The decline was due primarily to the long periods of drought and early March freezes of the past two years which damaged nectar plants and weakened bee colonies.

Honey production in Illinois, as in most other states, is restricted by the supply of nectar and pollen plants as well as by storage and marketing problems. During the past twenty years, Illinois has been rated as high as the third and as low as the fifteenth ranking state in the production of honey. During 1954, 28,000 Illinois beekeepers produced 6,440,000 pounds of honey valued at more than \$1 million. Although this amount was not as much as had been produced in some previous years, it did represent a 27-percent increase over 1953.

The 1955 season promises to be favorable in Illinois, as weather and plant conditions are very good. Even though 20 percent of the State's 164,000 colonies of bees were killed by starvation, the cold, or other causes during the winter, it appears that the largest honey crop in several years is now being produced.

The outlook for the industry as a whole is favorable and appears to be fairly stable. However, honey may deteriorate if not sold, and since the system of marketing is not well organized, honey producers often have difficulty in selling large wholesale lots. Consequently, the number of bee colonies will be increased only when a profitable market for honey can be developed and maintained.

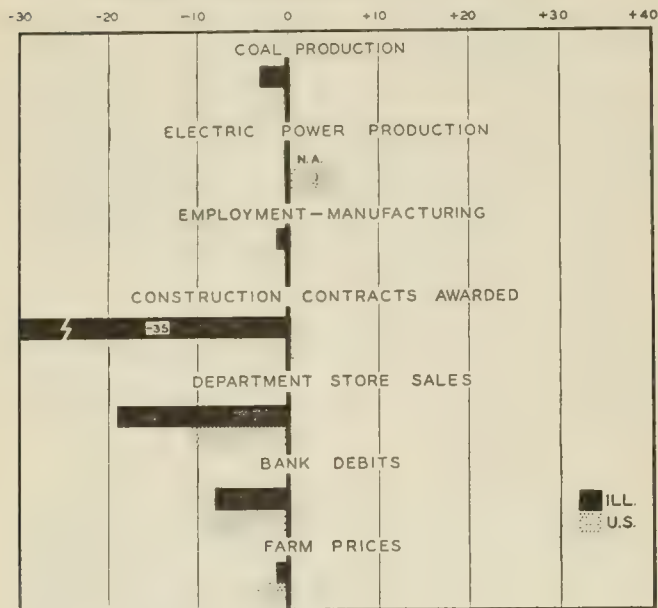
It is worth while to note, however, that despite the crucial role of the bee in the production of honey, to the State as a whole the return from beeswax and honey is of secondary importance. The honeybees' chief value lies in their ability to cross-pollinate fruit and legume blossoms. In fact, bees are responsible for 80 to 85 percent of all crop pollination performed by insects, and in this respect the fruit grower, truck farmer, and general farmer are all assisted by the bee.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes June, 1955, to July, 1955



n.a. Not available.

## ILLINOIS BUSINESS INDEXES

Item	July 1955 (1947-49 = 100)	Percentage Change from	
		June 1955	July 1954
Electric power <sup>1</sup> .....	209.6	+ 7.0	+17.3
Coal production <sup>2</sup> .....	60.0	- 3.7	+11.8
Employment—manufacturing <sup>3</sup> ..	104.3	- 1.0	+ 5.4
Weekly earnings—manufacturing <sup>3</sup>	143.3 <sup>a</sup>	+ 1.0	+ 7.5
Dept. store sales in Chicago <sup>4</sup> ....	116.0 <sup>b</sup>	+ 6.4	+ 8.4
Consumer prices in Chicago <sup>5</sup> .....	118.2	+ 0.7	+ 0.2
Construction contracts awarded <sup>6</sup>	300.2	-35.0	+25.2
Bank debits <sup>7</sup> .....	151.8	- 7.9	+ 5.9
Farm prices <sup>8</sup> .....	81.0 <sup>c</sup>	- 1.2	- 6.9
Life insurance sales (ordinary) <sup>9</sup> ..	185.9	-10.3	+22.0
Petroleum production <sup>10</sup> .....	133.6	+ 4.6	+31.6

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.

<sup>a</sup> June data; comparisons relate to May, 1955, and June, 1954. <sup>b</sup> Seasonally adjusted. <sup>c</sup> Revised series.

## UNITED STATES MONTHLY INDEXES

Item	July 1955	Percentage Change from	
		June 1955	July 1954
Personal income <sup>1</sup> .....	304.7 <sup>a</sup>	+ 1.0	+ 6.1
Manufacturing <sup>1</sup> .....	321.6 <sup>a</sup>	- 1.1	+15.5
Sales.....	43.9 <sup>a, b</sup>	+ 0.5	+ 1.2
Inventories.....	18.4	+ 3.6	+21.0
New construction activity <sup>1</sup>	14.9	+ 4.4	+10.8
Private residential.....	14.3	+ 4.6	+ 2.1
Private nonresidential.....	15.8 <sup>c</sup>	+ 0.5	-10.8
Foreign trade <sup>1</sup>	11.1 <sup>c</sup>	- 3.2	- 2.2
Merchandise exports.....	4.7 <sup>c</sup>	+10.8	-26.1
Merchandise imports.....	32.9 <sup>b</sup>	+ 1.3	+14.5
Excess of exports.....	25.5 <sup>b</sup>	+ 2.2	+16.6
Consumer credit outstanding <sup>2</sup>	23.5 <sup>b</sup>	+ 0.1	+ 9.3
Total credit.....	n.a.	....	....
Installment credit.....	140 <sup>a</sup>	+ 0.7	+13.8
Business loans <sup>2</sup> .....	157 <sup>a</sup>	+ 1.3	+17.2
Cash farm income <sup>3</sup> .....	128 <sup>a</sup>	0.0	+12.3
	122 <sup>a</sup>	- 0.8	+ 8.9
Industrial production <sup>2</sup>	107 <sup>a</sup>	+ 0.1	+ 7.1
Combined index.....	101	- 1.0	+ 2.3
Durable manufactures.....	141	+ 0.5	+ 4.4
Nondurable manufactures.....	143	- 0.5	+ 6.8
Minerals.....	297	+ 0.8	+23.7
Manufacturing employment <sup>4</sup>	123 <sup>a</sup>	+ 6.0	+10.8
Production workers.....	115	+ 0.3	- 0.4
Factory worker earnings <sup>4</sup>	111	+ 0.3	+ 0.2
Average hours worked.....	90	- 2.5	- 7.0
Average hourly earnings.....	103	- 0.8	- 3.2
Average weekly earnings.....	117	+ 0.8	+ 1.9
Construction contracts awarded <sup>5</sup>	87	- 3.3	- 3.3
Department store sales <sup>2</sup> .....	112	- 0.9	0.0
Consumers' price index <sup>4</sup> .....	84 <sup>d</sup>	- 2.3	- 4.5
Wholesale prices <sup>4</sup>			
All commodities.....			
Farm products.....			
Foods.....			
Other.....			
Farm prices <sup>3</sup>			
Received by farmers.....			
Paid by farmers.....			
Parity ratio.....			

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp. <sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for June, 1955; comparisons relate to May, 1955, and June, 1954. <sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1955					1954
	Aug. 27	Aug. 20	Aug. 13	Aug. 6	July 30	Aug. 28
Production:						
Bituminous coal (daily avg.).....	1,622	1,579	1,553	1,532	1,608	1,252
Electric power by utilities.....	10,906	10,812	10,729	10,925	10,727	9,227
Motor vehicles (Wards).....	150	160	173	163	188	111
Petroleum (daily avg.).....	6,685	6,701	6,635	6,640	6,616	6,141
Steel.....	127	126	125	122	127	88
Freight carloadings.....	792	781	775	765	796	677
Department store sales.....	111	106	100	97	98	102
Commodity prices, wholesale:						
All commodities.....	110.5	110.3	110.2	110.1	109.9	110.5 <sup>a</sup>
Other than farm products and foods.....	117.0	116.8	116.8	116.7	116.3	114.4 <sup>a</sup>
22 commodities.....	89.2	89.0	89.9	90.1	90.3	91.4
Finance:						
Business loans.....	24,050	23,940	23,754	23,550	23,526	20,773
Failures, industrial and commercial.....	180	216	169	213	201	184

Source: Survey of Current Business, Weekly Supplements.

<sup>a</sup> Monthly index for August, 1954.



# RECENT ECONOMIC CHANGES

## Housing Vacancies

Demand for housing continues to support the near-record addition to the supply being put in place this year. As illustrated by the chart below, vacancies amounted to 8 percent of available units in the second quarter of 1955, according to a survey by the Department of Commerce. However, most of the vacant units were vacant for reasons other than an insufficiency of demand. They were either summer homes, dilapidated units, or units awaiting occupancy by their owners or renters.

Vacant housing available for rent amounted to 1.8 percent and units for sale to .4 percent of all dwelling units in the second quarter compared with 1.1 percent and .5 percent respectively in early 1950. Vacant houses for rent accounted for virtually all of the past five years' increase in the over-all vacancy rate.

## Consumer Incomes Stable in 1954

Income of the average American over 14 years of age leveled off last year at \$2,300, according to the Census Bureau. The sizable disparity between the average incomes of men and women was again evident. Median income of males amounted to \$3,200 last year as compared with \$1,200 for the fairer sex. The discrepancy is due partly to the higher wage rates received by men and to the fact that men hold the bulk of high-income positions, but the difference is also partly due to the prevalence of more part-time workers among women.

Along with the leveling in total income in 1954, there was some slowdown in the trend toward a more equal distribution of income. The proportion of men and women with incomes over \$5,000 increased only fractionally last year to 13.8 percent. Between 1952 and 1953, the proportion had increased from 12 percent to 13.5 percent, and in 1945, only 3 percent of income receivers earned more than \$5,000. At the other end of the income scale, the proportion of persons with incomes below \$2,000 has declined from 67 percent in 1945 to 45 percent last year. It may be noted, however, that much of the shift in the distribution of income since the war reflects price and

wage increases rather than a shift toward a greater equality of income.

## Gross Product Up Sharply

Gross national product increased substantially in the second quarter with all major sectors of the private economy contributing to the advance. Total output at seasonally adjusted annual rates amounted to \$385 billion, \$9.5 billion above the first quarter and \$17.2 billion above last year's second quarter low.

### GROSS NATIONAL PRODUCT OR EXPENDITURE (Seasonally adjusted, billions of dollars at annual rates)

	2nd Qtr. 1955	1st Qtr. 1955	2nd Qtr. 1954
Gross national product.....	384.8	375.3	357.6
Personal consumption.....	250.5	245.8	235.1
Durable goods.....	35.1	34.4	29.0
Nondurable goods.....	125.3	122.4	120.4
Services.....	90.2	89.0	85.7
Domestic investment.....	60.1	54.1	46.9
New construction.....	32.1	31.2	27.3
Producers' durable equipment	23.7	21.5	22.4
Change in business inventories	4.3	1.5	-2.7
Nonfarm inventories only..	4.2	1.5	-3.2
Foreign investment.....	-7	-4	-3
Government purchases.....	74.9	75.8	75.9

### INCOME AND SAVINGS

National income.....	n.a.	311.4	298.9
Personal income.....	300.5	293.6	286.6
Disposable personal income.....	267.1	261.0	253.9
Personal saving.....	16.6	15.3	18.8

Private investment was up by \$6 billion from the first quarter, with a \$2.8-billion increase in the rate of inventory accumulation and a \$2.2-billion rise in equipment acquisition accounting for the bulk of the gain.

Part of the gain was brought about by a further sharp advance in personal consumption expenditures. The strength of these outlays is a reflection partly of rising disposable income and partly of the willingness of consumers to spend a higher proportion of their incomes. Personal saving in the second quarter constituted only 6 percent of disposable income as compared with 7 percent of disposable income saved a year ago. The \$15-billion gain in consumption expenditures over the past year has been shared about equally between durable, nondurable, and service expenditures.

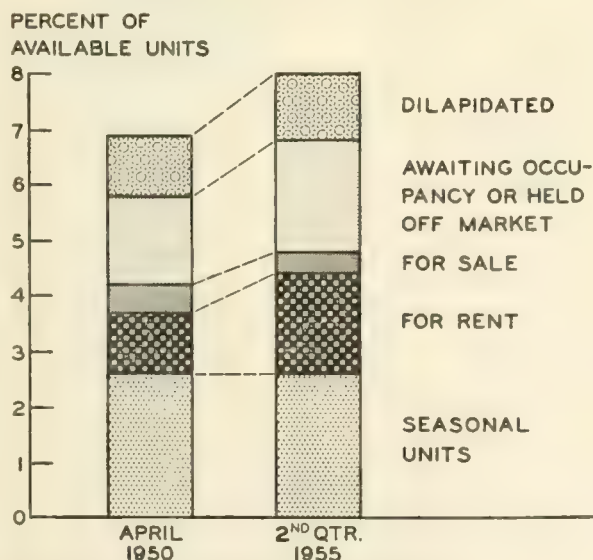
## Direct Investment Continues High

American corporations' direct investments in their foreign enterprises increased by \$1.4 billion in 1954, continuing the steady growth that has prevailed since the war.

Last year's increase brought the accumulated value of direct investments to \$17.7 billion, over \$10 billion of which has been added since 1945. Industrially, the bulk of total business investment abroad has gone into manufacturing and petroleum. These two industries shared about equally more than 60 percent of total direct investments at the end of 1954. Mining and smelting accounted for another 17 percent of the total.

Of the \$5.7 billion invested in foreign manufacturing companies, more than half has been spent in Canada, a fourth in Western Europe (largely in the United Kingdom), and more than a fifth in Latin America. A major consideration in the location of most manufacturing in-

HOUSING VACANCY RATES



Source: U. S. Department of Commerce.

vestments is the existence of sizable local markets. In petroleum and mining this is of less significance since the investment mainly reflects the location of the resource rather than the market.

### Portland Cement in Short Supply

Fairly pronounced shortages of portland cement are likely in some localities throughout the second half of 1955. Cement consumption in the first half led 1954 by 12 percent, reflecting the record volume of new construction activity so far this year. Consumption usually exceeds production during the second and third quarters of the year with the deficit supplied from inventory accumulations. This year, however, portland cement stocks at the second quarter seasonal peak amounted to only 26.5 million barrels, 2.5 million barrels less than a year ago.

The Department of Commerce has estimated cement consumption for 1955 at 285 million barrels. The industry currently has an annual capacity—existing facilities operated 40 hours a week throughout the year—of 296 million barrels. However, as shown by the chart, this is inadequate for meeting seasonal demands without overtime operations. The industry reportedly has expansion plans and work in process which will eventually add 16 million barrels to capacity and help alleviate the tight supply situation.

### Dividends Increase

Corporation dividends in July amounted to \$669 million, more than a fifth above disbursements in the same 1954 month. However, the sizable increase reflected unusually low disbursements last July when some corporations postponed payments until August to give stockholders advantage of dividend tax relief that took effect that month. After allowance for this factor, dividends

were still slightly above July, 1954, with the gain concentrated largely among communications and financial corporations. For the first seven months of 1955, dividends amounted to \$5.3 billion, 10 percent above the same 1954 months.

### Employment at Record High

Employment continued to expand in August, rising by a half million to a record high of 65.5 million as agricultural employment dipped less than seasonally and nonfarm employment moved up by 700,000 workers. Unemployment declined during the month to 2.2 million. Census data in thousands of workers follow:

	August 1955	July 1955	August 1954
Civilian labor force.....	67,725	67,465	65,522
Employment.....	65,488	64,995	62,277
Agricultural.....	7,536	7,704	6,928
Nonagricultural.....	57,952	57,291	55,349
Unemployment.....	2,237	2,471	3,245

Presidential approval of the increase in the minimum wage from 75 cents to \$1.00 an hour in August will improve the incomes of workers in many lower-paying pursuits. The new minimum becomes effective next March and applies with some exceptions to employees engaged in interstate commerce or in production of goods for interstate commerce.

### Bulwark Against Deflation

(Continued from page 2)

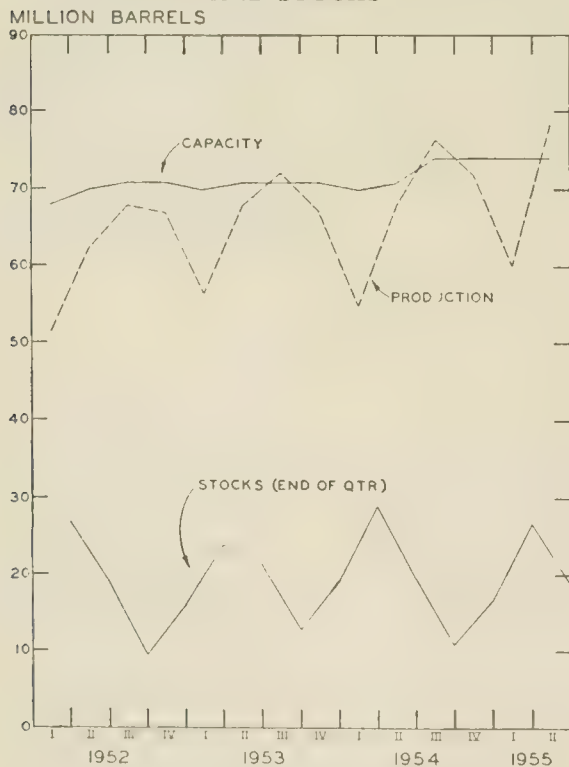
the current situation is the high rate of investment in the new facilities needed by state and local governments. These are in large part connected with private construction. When people are building new homes, they want streets, sewer and water systems, schools, and all the other facilities that make up a modern community. State and local governments throughout the country have been under pressure to meet the need. Public construction, excluding military and atomic energy projects, is today a higher proportion of the total than in the 1920's. After a decline, it is difficult to keep such activity going, not only because the need declines, but because finances are pinched. Government revenues decline with activity and from the smaller income current services must be maintained, so that the impact of the decline is focused on new capital outlays. Federal public works programs undertaken specifically to support the economy must therefore work against an adverse trend in state and local as well as in private investment.

Another widely supported suggestion for counter-deflationary action is the cutting of taxes, on the assumption that funds left with the public will in large part be spent. No doubt further tax cuts will be made, but it will be hard to get agreement on the extreme tax-cutting that might be necessary. Disparities between the producers who have lost their incomes through depression and unemployment and those who have maintained or increased their incomes will loom large enough so that the case for making them still larger is undermined.

Taking everything into account, it would appear that estimates which limit government action to only a fraction of the potential magnitude of the problem are not unrealistic. It is inconsistent to assume at the same time that the problem of stabilization has been solved.

VLB

PORTLAND CEMENT PRODUCTION AND STOCKS



Source: U. S. Department of Commerce.



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Branding the Consumer

The importance of brands to the manufacturer, the distributor, and the consumer is the subject of a recent study made by members of the marketing staff of the University of Illinois. It represents the first concerted attempt to explore the market position and trends of manufacturers' and distributors' brands since the early 1930's. Through interviews with business firms, information was collected on brand policies, problems, and practices. Studies of the interrelationships between price and quality and of consumer preference with regard to different brands were also conducted. The findings of this work are available in *Manufacturer and Distributor Brands*, by Robert H. Cole, Lloyd DeBoer, Richard D. Millican, and Nugent Wedding. It is available from the Bureau of Economic and Business Research, 205 David Kinley Hall, Urbana, for \$1.00 per copy.

### Car-Buying Families

Persons buying new cars are among the richest potential market in the nation. Their incomes average almost twice those of the nation as a whole, and their savings are also very much greater, according to a survey on new car buyers conducted by *United States News and World Report*. Both income and liquid asset holdings, however, vary a good deal among the various makes of cars, as may be seen in the accompanying chart. In general the more expensive the car, the higher the average income of its purchasers. Liquid asset holdings

show a similar pattern with regard to car price, but there are surprisingly large differences in the assets of car-buying groups with substantially the same annual income level.

The primary uses of the new cars involved business. About 70 percent of the cars purchased were to be driven to work and more than 40 percent were also driven on longer business trips. Civic and club work and driving children to school were other important activities for the new cars.

More than 90 percent of the purchasers had a car to trade in and 62 percent traded in the same make as the new car bought, with 58 percent being purchased from the same dealer. The average age of the cars traded in was about three years, and more than 90 percent were less than five years old. The majority of buyers, 62 percent, planned to trade the new car within the next three years, four out of five expecting to get the same make next time.

### Civilizing Water

A water heater that can be attached to the cold water faucet is being marketed by Greatex Products, Inc., 890 Sixth Avenue, New York 1. By carrying the water in a winding path through an electrical field, the Thermojet will produce lukewarm to steaming water—the slower the flow, the hotter the water. Weighing only three pounds, the heater sells for \$19.95.

A new water purifying system has also recently entered the market. It is called the Pudlo Water Clarifier, manufactured by Pudlo Liquid Filters, Inc., in Holstein, Wisconsin. It is a small unit containing replaceable filter pads which will last a week to several months, depending on the volume of water used and the amount of impurities. The device can be attached to the main water pipe where it enters the house or to the outlet of a storage tank. By filtering out minerals such as iron and lime it prevents clogging and scaling in the pipes.

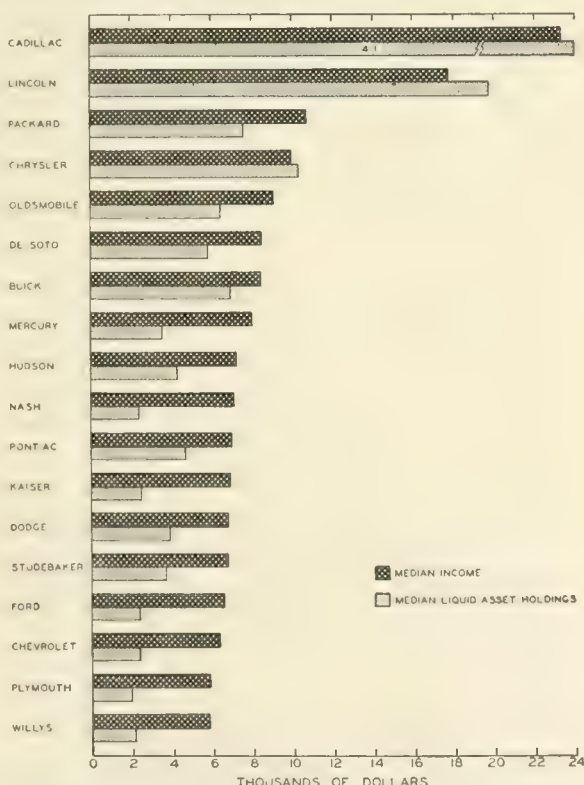
### Households and Families

In the past five years the number of households in the United States has increased by almost 10 percent to 47.8 million, according to estimates of the Bureau of the Census. The increase has been entirely in nonfarm households, including both urban and rural nonfarm, which rose 13 percent, whereas farm households declined about the same proportion. In April of this year there were 42.2 million nonfarm households and 5.5 million farm households.

Almost 90 percent of the households are maintained by families, the others being occupied by individuals. In addition to the 41.7 million primary families, or those with their own households, there are 0.2 million secondary families and 2.0 million subfamilies. Both these groups live in households with other families, but are distinguished by the fact that a secondary family is not related to the person maintaining the household whereas the subfamily is.

Married couples have increased by 4 percent since 1950. The number with their own households has increased even more rapidly, 6.4 percent, as the result of continued undoubling. The number living in another household has shrunk to a postwar low of only 1.3 million couples, less than half the number at the close of the war.

INCOME AND ASSETS OF CAR BUYERS



Source: *The People Buying New Automobiles Today*, Market Research Division, United States News Publishing Corp.

# CAPITAL EXPENDITURES

DONALD C. STREEVER, JR., Research Assistant

Private investment outlays seldom account for more than 15 percent of gross product but they tend to be considerably more erratic than total output over the course of the business cycle. They decline relatively more than total activity in periods of business slump and rise relatively more in recoveries. This phenomenon has given rise to the widely accepted notion that the basic cause of fluctuations in income and employment is the instability of investment.

In the recession of 1954, plant and equipment expenditures declined 11 percent as compared with a 3-percent decline in gross national product. This year gross national product surged ahead to a new high. The slower response of investment makes it difficult to judge how far the recovery in capital expenditures will carry. The August survey conducted by the Department of Commerce and the Securities and Exchange Commission indicates that the recovery in capital expenditures which began in the first quarter can be expected to continue through the remainder of 1955. On this basis 1955 expenditures promise to exceed 1954 by about 4 percent, without reflecting the full extent of the recovery.

This article considers some of the possibilities for the near-term outlook, after a brief review of recent trends. The analysis is pursued in light of the factors influencing capital expenditures and the need for new productive facilities as indicated by movements in output relative to the existing capital stock.

## Factors Influencing New Investment

Plant and equipment expenditures are sensitive to changes in over-all demand. When output is rising facilities of many firms are inadequate for meeting higher production schedules without resorting to the costly use of overtime employment of labor forces or the operation of older, less efficient capital facilities. This gives rise to a strong stimulus for new investment. On declines, existing facilities are relied upon and the inducement to expand is lost.

The sensitivity of new capital investment to output changes necessarily operates with some lag, because of the time required for construction and installation of new facilities. Investment outlays may remain low for several quarters after recovery in other sectors has been evident. Similarly, expansion plans made in a period when output is rising will generally result in a continuation of high-level expenditures for some time after output has turned down.

The postwar relationship of industrial, utility, and railroad investment to production measures is illustrated in Chart 1. The time lag referred to is evident in the industrial and railroad panels of this chart, and shows up especially in the slowness with which expenditures respond to recovery from the lows in output.

It is important to recognize that factors other than production affect the level of investment outlays. Examination of the relationship of output and investment prevailing over the past thirty years for various major industries indicates that one of the most important of these other factors is the stock of existing plant and equipment. Over long periods of time, the relationship of capital expenditures to production is a declining one. This is accounted for by rising capacity, since the greater

the amount of existing productive facilities, the larger an increase in output must be to call forth a given level of new investment. Conversely, a stable level of production is not an adequate stimulus to growth in plant and equipment outlays. With stable or declining output business can reduce the volume of new investment and satisfy demand with the existing capital stock.

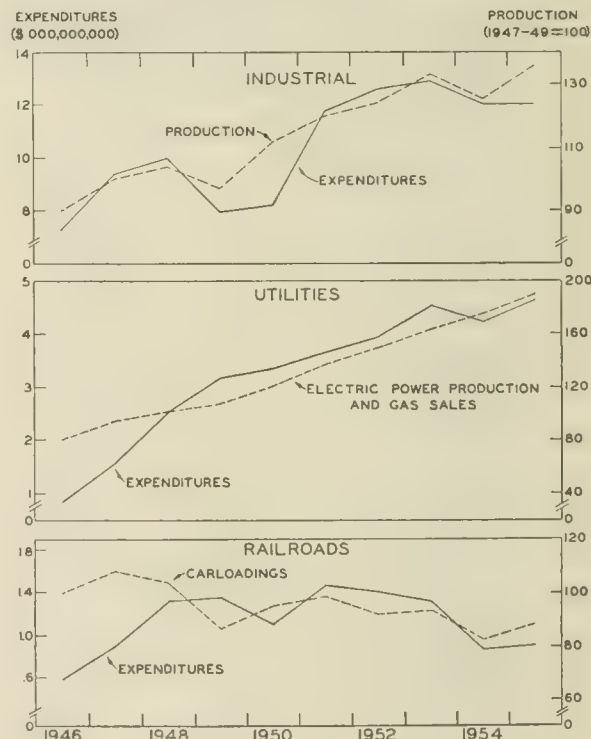
Changes in capacity are generally in one direction only. When activity is expanding, investment outlays exceed replacement needs and the capital stock advances. When declines in activity occur, they affect capacity only gradually because of the slowness with which durable capital goods wear out and have to be retired. Furthermore, even when activity is at its lowest, new expenditures may still be sufficient to maintain the existing stock so that capacity merely stops growing or at most declines only slightly.

## Recent Experience

As shown by Chart 2, expenditures by all major industries except the commercial, financial, and trade group declined during 1954.

Industrial production declined by 7 percent during the year whereas industrial capital stock increased by about 4 percent. This resulted in a decline in industrial investment of 7 percent between 1953 and 1954. The drop from the high to the low quarterly extremes of the period were, however, about three times as large.

CHART 1. INVESTMENT EXPENDITURES AND OUTPUT



Sources: Securities and Exchange Commission, U. S. Department of Commerce, Federal Reserve Board, American Gas Association, Federal Power Commission, and Association of American Railroads.



In the transportation field, divergent trends in investment reflect the loss of business by railroads to other carriers since the war. In 1939 railroads accounted for 63 percent of intercity freight traffic; in 1954 their share was down to about 51 percent. Motor trucks and oil pipelines have absorbed much of the share of traffic volume lost by the railroads. Similar shifts have occurred in passenger traffic.

The effect of these movements on capital outlays has been to restrict railroad investment, particularly since 1951 when the dieselization program reached its peak. Rail investment reached a postwar high of \$1.5 billion in 1951 and then declined each year to \$850 million in 1954. Expenditures by other kinds of freight carriers have increased except, significantly, in 1949 and 1954 when total volume dropped.

The recent rise in carloadings, particularly at the midyear seasonal peak, has placed considerable strain on the roads' traffic-moving capacity. In July new car orders rose for the fourth consecutive month to 18,000 cars, and backlogs at the beginning of August were up to 43,000 cars, more than five times their level a year ago.

New investment expenditures by power utilities have expanded more than fivefold in the postwar period and have resulted in an increase in generating capacity from 52 million kilowatts at the beginning of 1946 to 102.6 million at the beginning of 1955. Despite the large additions to capacity, the ratio of production to capacity has remained considerably above prewar levels, reflecting the greater growth in electric power production than in capacity since the prewar years.

The postwar boom in gas and electric power production and investment reflects expansion of industrial production, the greater amount of capital facilities per worker, and the housing boom and the related increasing mechanization of American homes.

Consumption of electricity by the industrial sector is closely related to industrial production, though declines in the latter are not fully reflected in the former. In the domestic sector, energy consumption is fairly insensitive to changes in the level of business. Domestic consumption depends largely on the stock of household appliances and equipment which use gas and electricity. These are for the most part kept in operation during recessions.

## Outlook

Currently, the role of business capital expenditures is shifting from a vigorous response to the recovery that began elsewhere toward becoming the primary factor keeping the boom moving ahead. The question is, How long can it continue to play this new role?

In the manufacturing sector, maintenance of continued high-level expenditures into next year hinges on continued expansion in output. Even if industrial production levels off or declines next year, the advance in industrial investment expenditures from the first quarter of 1955 can be expected to carry over into the early part of 1956 by virtue of the lagged response to 1955's record output. However, capacity will probably increase by about the same amount this year as in 1954. Gross expenditures are estimated somewhat higher than a year ago, but retirements from the increased capital stock can also be expected to be up somewhat. This rise in the capital stock will limit the need for new investment in 1956.

If total industrial production in 1956 advances by 5 percent, an increase of about \$1 billion in industrial investment would not be unreasonable. If production levels off, expenditures can be expected to level or decline, with

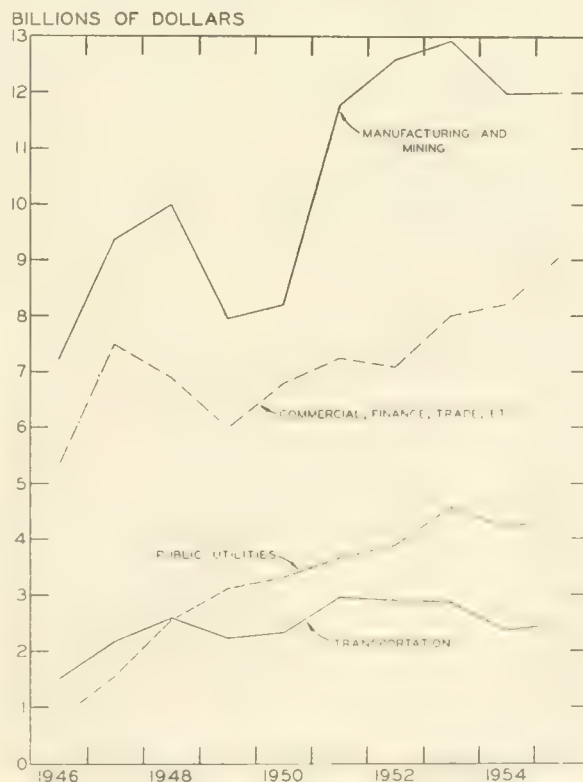
a second-half reduction balancing or more than offsetting the fairly certain gain in the early part of the year. If production should be down by any notable degree next year, the effect of adequate capacity in conjunction with reduced output will produce a sharper cutback in the second half of 1956 which would probably extend into 1957.

Sharp curtailment in electric power investment is unlikely as long as production continues to advance. The postwar increase in capacity does not appear to be out of line with rising production and consumption. Since lags are very long in this area, no substantial reduction is likely to occur before the end of 1956.

The large backlog of railroad car orders ensures maintenance of and perhaps some further increase in the current level of capital expenditures by the rails into 1956. Although it is not likely that the railroads will gain back any significant share of the shipping market from their competitors in the near future, carloadings may stabilize at something like current levels if total transportation activity continues to expand. In this event, the current moderate rise in capital expenditures will continue only until facilities are adequate for meeting seasonal demands. Thereafter, outlays could be expected to cover replacement and maintenance needs, but little more.

As long as consumer demand and production of goods and services continue to increase, capital expenditures will continue to contribute a substantial share to total activity. If the current rate of growth is not maintained and output should merely hold stable at the current highs, investment expenditures can be expected to level off also and then begin a moderate decline. In the event of an actual reversal in production, a sharp reduction in new investment expenditures will be in the offing.

CHART 2. PLANT AND EQUIPMENT EXPENDITURES



Source: SEC-Department of Commerce surveys.

# LOCAL ILLINOIS DEVELOPMENTS

Business activity moved seasonally downward in Illinois during July, although most indicators were still well ahead of their mid-1954 levels. Construction contracts showed the largest decline, 35 percent, as the index fell to within 25 percent of its year-earlier level for the first time in five months. Department store sales dropped almost 20 percent in July, although on a seasonally adjusted basis they were up slightly. Steel output, bank debits, and life insurance sales were also down for the month.

Petroleum production, on the other hand, rose during July, largely as a result of the discovery of six new oil pools during the month. Production ran more than 30 percent higher than a year ago. Coal production, although down for the month, was almost 12 percent higher than in July, 1954.

## Crop Outlook

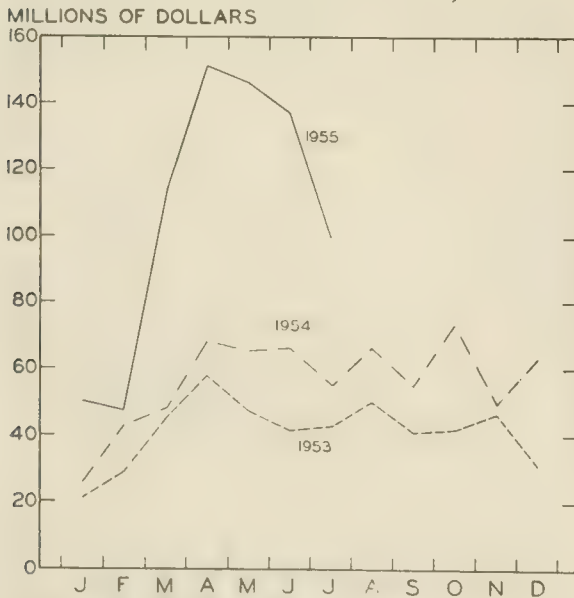
The rains came! And just in time, since a very dry August had threatened to sharply curtail crop production. The record crop estimates made at the beginning of the month had already been revised downward for corn and soybeans when the dry central portions of the State welcomed rainy skies and cooler weather.

The crop report at the beginning of September forecasted several records. An all-time high of 109 million bushels is estimated for soybeans. The corn crop, with a prospective 500 million bushels, is one of the largest ever produced. Hay tonnage of 5.2 million tons is one-half million greater than the previous high.

Record yields per acre are also being chalked up. Oats are expected to set a new high of 57 bushels. Wheat's yield of 31.5 bushels per acre is also an all-time high. A record of 18.5 bushels is being set for rye, and the barley yield will be very close to the record 36.5 bushels per acre set in 1940. These yields are resulting in the largest total crops in decades for many of these grains.

Many of these large crops come on top of enormous stocks already stored in Illinois. Even if the recent dryness has some effect in limiting output, there is little chance of a dwindling of the huge surpluses which have been built up in the past years.

## RESIDENTIAL CONSTRUCTION, 1953-55



Source: F. W. Dodge Corporation.

## Training for a Trade

In March of this year there were 9,508 apprentices registered in this State, almost 8 percent of the total number in the nation. Illinois ranks fourth in the United States, with more apprentices than any other state except New York, California, and Ohio.

Currently almost three-fourths of the persons in such training are in the building trades. These have accounted for all of the increase in recent years, advancing by more than 2,000 persons whereas the total number of apprentices increased by less than half that amount. The building boom and resultant high wages are largely responsible for this gain.

Carpenters' apprentices have swelled their ranks the most, more than doubling since 1952. They now number about 1,500, exceeded only by plumbers and pipefitters, which total 1,700. Electricians and the "trowel trades," which include brick, stone, and tile workers, cement masons, and plasterers, have about 1,400 apprentices each.

The next largest group, comprising 800 persons, is tool and die makers, the only nonconstruction trade to boast more than 500 apprentices. Two others with about 500 persons are machinists and sheet metal workers.

## Airport Construction Program

Thirty airports scattered throughout the State are in line for expansion and improvement under a two-year construction program recently announced by Governor Stratton. The airports stretch from Rockford to Cairo and from Quincy to Danville, including both municipal and county fields.

Hangars, additional land, runways, lights, and towers are among the projects to be undertaken between now and 1957. In Peoria an administration building, a hangar, and roadways are scheduled. Freeport will receive new lights, roads, and some electrical work. In Centralia plans have been made for new hangars and lights as well as improvements on existing facilities. Additional land, with lights and runways, are contemplated for Dixon.

The expenditures range from \$5,000 at Marshall and Taylorville to \$2.25 million at O'Hare Field in Chicago. In all, the State plans to spend about \$3.1 million; an additional \$3.4 million will be contributed by the Federal government and some local funds will also be used.

## Decline in Construction

A great deal of steam escaped from the Illinois construction boom during July. The valuation of all contracts awarded fell from a high of \$245 million in June to \$159 million in July, a drop of 35 percent.

Just as the boom had been based on housing, about half of the sharp loss resulted from declines in residential contracts, as may be seen in the accompanying chart. Residential awards reached their peak in April, and in the three months thereafter they retraced about one-half the distance to the levels of 1953 and 1954. Some measure of the slackening can be attributed to the usual seasonal letdown toward winter. Recent tightening of credit restrictions and saturation of the housing market, however, seem to be the major factors behind so sharp a drop.

Nevertheless, employment in contract construction continued upward in Illinois during July, reflecting the lag between contract awards and actual building.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

July, 1955

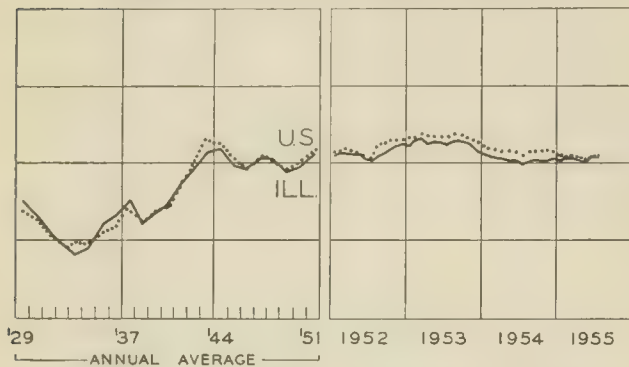
		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Deposits <sup>5</sup> (000,000)	Postal Receipts <sup>6</sup> (000)
<b>ILLINOIS</b>							
ILLINOIS		\$30,157 <sup>a</sup>	993,590 <sup>a</sup>	\$566,772 <sup>a</sup>		\$13,271 <sup>a</sup>	\$11,221 <sup>a</sup>
Percentage change from	{ June, 1955	-2.3	+3.8	+0.8	-19	-7.9	-22.1
	{ July, 1954	+13.8	+7.9	+3.9	+5	+5.9	-4.0
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b>							
Chicago		\$18,269	751,071	\$409,128		\$12,075	\$9,745
Percentage change from	{ June, 1955	-6.2	+4.0	+0.4	-21	-7.9	-22.5
	{ July, 1954	-4.5	+6.1	+1.9	+4	+5.5	-4.2
<b>Aurora</b>							
Aurora		\$ 505	n.a.	\$ 8,576		\$ 55	\$ 104
Percentage change from	{ June, 1955	-9.3		+1.4	-20	-4.6	-8.5
	{ July, 1954	-2.1		+9.4	+10	+14.8	+1.4
<b>Elgin</b>							
Elgin		\$ 516	n.a.	\$ 6,109		\$ 36	\$ 62
Percentage change from	{ June, 1955	+83.6		+2.6	-20	-2.1	-44.7
	{ July, 1954	+13.9		+8.3	+9	+11.0	-19.6
<b>Joliet</b>							
Joliet		\$ 954	n.a.	\$11,960		\$ 69	\$ 71
Percentage change from	{ June, 1955	+5.5		-1.5	-16	-9.5	-30.5
	{ July, 1954	+184.8		+9.0	+16	+8.2	-18.9
<b>Kankakee</b>							
Kankakee		\$ 212	n.a.	\$ 5,540		n.a.	\$ 34
Percentage change from	{ June, 1955	-50.8		-4.4	n.a.		-17.9
	{ July, 1954	+59.4		+3.7			+6.1
<b>Rock Island-Moline</b>							
Rock Island-Moline		\$ 711	22,808	\$ 9,935		\$ 89 <sup>b</sup>	\$ 119
Percentage change from	{ June, 1955	-20.9	+10.0	-2.4	n.a.	-9.9	-21.2
	{ July, 1954	-35.7	+15.9	+1.3		+8.2	-10.0
<b>Rockford</b>							
Rockford		\$1,619	34,186	\$19,051		\$ 163	\$ 165
Percentage change from	{ June, 1955	-37.7	-1.4	+4.2	-21 <sup>c</sup>	+1.2	-14.8
	{ July, 1954	+73.0	+31.0	+18.4	+7 <sup>c</sup>	+24.0	+10.0
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b>							
Bloomington		\$ 203	6,970	\$ 5,689		\$ 60	\$ 76
Percentage change from	{ June, 1955	-49.1	-4.4	+2.4	n.a.	-7.6	-32.8
	{ July, 1954	-26.7	+3.7	+3.7		-1.8	-2.6
<b>Champaign-Urbana</b>							
Champaign-Urbana		\$ 567	9,476	\$ 7,870		\$ 61	\$ 68
Percentage change from	{ June, 1955	-39.4	+3.2	-1.2	n.a.	-6.0	-25.3
	{ July, 1954	+78.9	+1.8	+6.9		+13.5	+0.1
<b>Danville</b>							
Danville		\$ 309	10,976	\$ 6,620		\$ 53	\$ 55
Percentage change from	{ June, 1955	+6.2	+27.4	+3.8	-3	+4.8	-1.8
	{ July, 1954	+64.4	+21.4	+14.7	+26	+12.9	+3.2
<b>Decatur</b>							
Decatur		\$2,732	29,363	\$11,819		\$ 113	\$ 87
Percentage change from	{ June, 1955	+358.4	+4.8	-7.6	+3 <sup>c</sup>	-1.6	-32.4
	{ July, 1954	+116.7	+20.3	+5.7	+12 <sup>c</sup>	+26.5	-12.9
<b>Galesburg</b>							
Galesburg		\$ 312	7,628	\$ 4,517		n.a.	\$ 30
Percentage change from	{ June, 1955	+52.2	+0.7	+1.9	n.a.		-20.0
	{ July, 1954	+43.1	+5.6	+5.8			-9.3
<b>Peoria</b>							
Peoria		\$1,490	46,835 <sup>c</sup>	\$19,452		\$ 202	\$ 194
Percentage change from	{ June, 1955	-8.3	-7.2	+7.6	-14 <sup>c</sup>	-11.6	-28.6
	{ July, 1954	+342.1	+10.8	+13.2	+10 <sup>c</sup>	+14.6	-7.9
<b>Quincy</b>							
Quincy		\$ 768	8,220	\$ 5,263		\$ 38	\$ 56
Percentage change from	{ June, 1955	+180.3	-3.8	-0.1	-7	-13.8	-2.8
	{ July, 1954	+164.8	+2.3	+8.2	+5	+4.2	-5.4
<b>Springfield</b>							
Springfield		\$ 406	34,696 <sup>c</sup>	\$14,424		\$ 104	\$ 220
Percentage change from	{ June, 1955	+44.0	+18.6	-2.1	n.a.	-9.1	-0.3
	{ July, 1954	+31.0	+17.8	+9.3		+7.8	+13.9
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b>							
East St. Louis		\$ 298	12,051	\$10,254		\$ 114	\$ 68
Percentage change from	{ June, 1955	-55.9	+10.9	+9.7	n.a.	-14.6	-7.0
	{ July, 1954	+16.9	-6.4	+9.6		-10.9	-14.3
<b>Alton</b>							
Alton		\$ 152	12,874	\$ 5,464		\$ 38	\$ 28
Percentage change from	{ June, 1955	-40.2	-3.3	+11.4	n.a.	-14.0	-9.3
	{ July, 1954	-30.6	+7.8	+9.2		+6.9	-1.5
<b>Belleville</b>							
Belleville		\$ 134	6,435	\$ 5,099		n.a.	\$ 38
Percentage change from	{ June, 1955	-23.9	-1.0	+12.6	n.a.		-10.6
	{ July, 1954	-33.7	+1.8	+11.7			+12.1

<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for June, 1955, the most recent available. Comparisons relate to May, 1955, and June, 1954.<sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

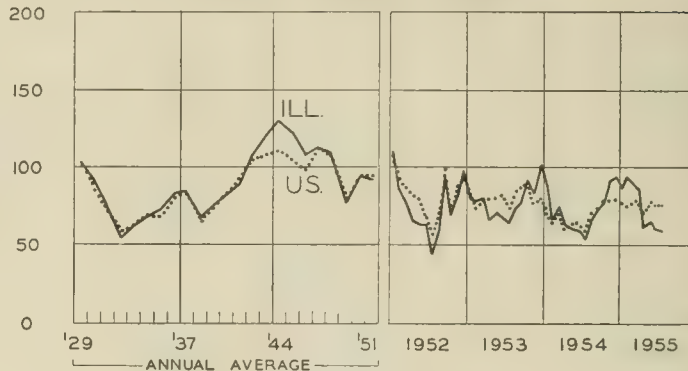
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

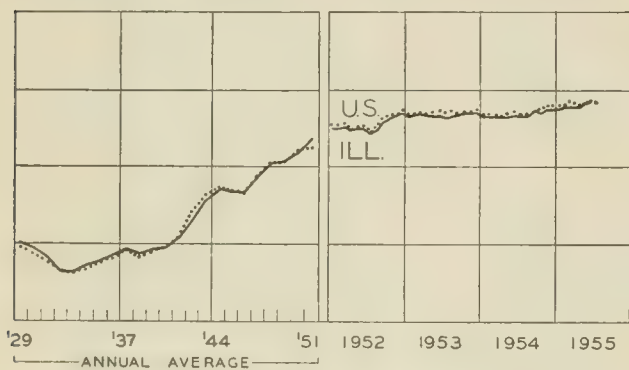
EMPLOYMENT - MANUFACTURING



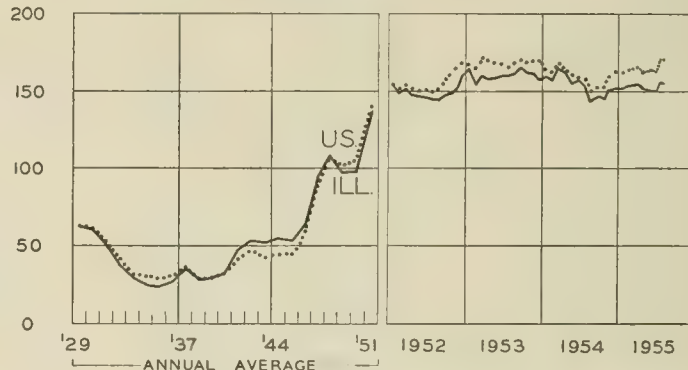
COAL PRODUCTION



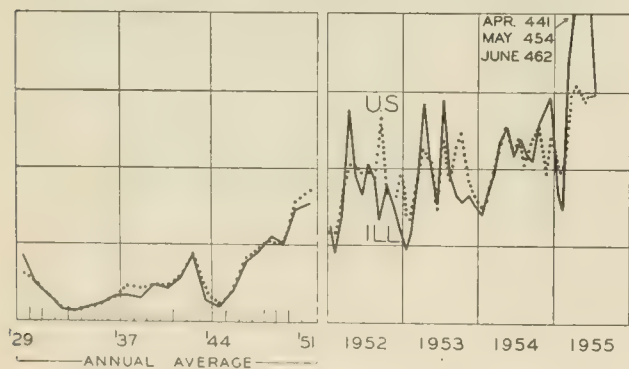
AVG. WKLY. EARNINGS — MANUFACTURING



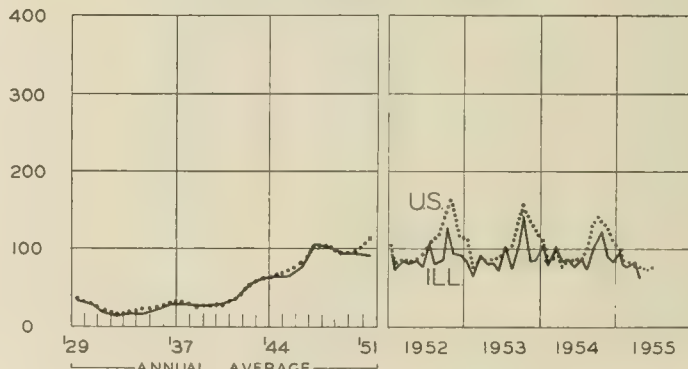
BUSINESS LOANS



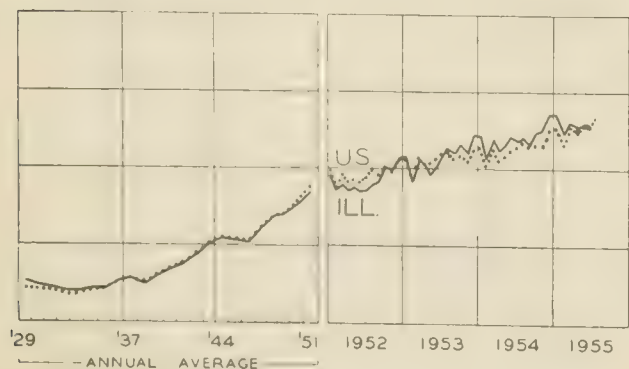
CONSTRUCTION CONTRACTS AWARDED



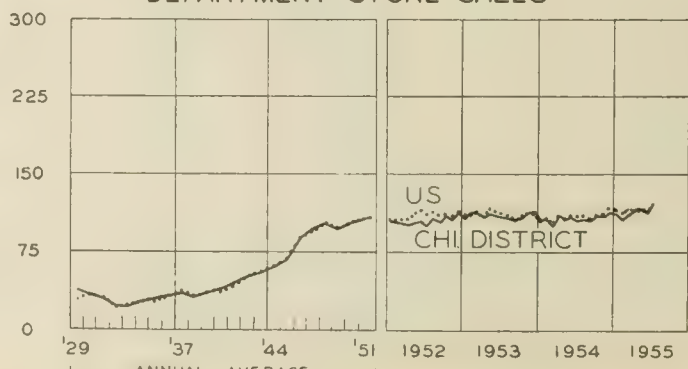
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES





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Ill. Coll.

# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . OF THE  
BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

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## HIGHLIGHTS OF BUSINESS IN SEPTEMBER

Preliminary indications point to a banner fall season for business. Consumer spending, as reflected in rising department store and mail order sales during September, appeared to be heading for new highs. With business also increasing its outlays on capital expenditures and inventory accumulation, and with the construction boom continuing unabated, the demand for primary materials in some areas threatened to outstrip available supplies.

Symptomatic of this situation have been recent shortages, accompanied frequently by price increases, in a number of materials. These include copper, cement, iron ore, zinc, and natural rubber. Not the least important commodity to undergo further price increases was money. Rates on business loans have been rising steadily and at the end of the month the prime rate on bankers' acceptances, a major source of short-term loans, rose  $\frac{1}{8}$  to  $\frac{3}{4}$  percent, the seventh such increase this year.

### Mounting Construction Activity

The value of new construction put in place in September rose to a new monthly peak of \$4.0 billion. This brought the value of new construction in the third quarter of this year to a record \$11.9 billion. After adjustment for seasonal factors, this figure corresponds to an annual rate of construction of \$41.8 billion; actual outlays in 1954 came to \$37.6 billion.

The boom in commercial building continued in evidence during September, outlays for this type of activity during the month exceeding \$300 million for the first time. Expenditures for industrial facilities, churches, educational buildings, and highways were also maintained at record levels during the month. Private homebuilding declined somewhat but still remained substantially above year-ago levels.

### Employment High

Although the number of people at work dropped 800,000 from the August high of 65.5 million, the employment situation in September was good. The decline in employment was due primarily to the return to school of teenagers who had held summer jobs and to slackened farm activity.

Reflecting these movements, as well as the over-all high levels of activity, was a decline in unemployment to 2.1 million. The unemployment figure for August was 2.2 million and for last September, 3.1 million.

In addition, factory workers' average weekly earnings rose to a new high of \$77.90 in September, and surveys in cities with labor surplus problems showed marked upturns in employment. Further improvement is foreseen in the next two months by the United States Department of Labor in automobiles, coal mining, aircraft, shipbuilding, farm machinery, furniture, and consumer durables.

### Manufacturers' Sales Heavy

Manufacturers did a thriving business in August. Sales totaled \$27.5 billion, more than \$4 billion above the figure for last August, and after seasonal adjustments, about \$700 million above the July level. At the same time new orders increased even more, by \$2 billion over the July figure to \$29.0 billion. As a result, unfilled orders on the books of manufacturers at the beginning of September were up \$1.5 billion to \$52.2 billion; unfilled orders last September amounted to \$47.4 billion.

A considerable portion of the spurt in new orders is attributable to increased demand for primary metals. Producers of machinery and transportation equipment have also received large amounts of new orders.

Inventory holdings of manufacturers rose by a substantial \$350 million in August, after seasonal adjustment. At \$43.9 billion, however, inventories at the beginning of September were only moderately (\$1 billion) higher and the stock-sales ratio, at 1.6, was lower than a year ago.

### Stock Market Falls Out of Bed

Nowhere was the reverberation of President Eisenhower's heart attack felt more sharply than on the stock market. On September 26, the Monday following the attack, the Dow-Jones index of 30 industrial stocks dropped 32 points to 456, and it is estimated that the value of stocks registered on the New York Stock Exchange dropped \$13 billion, or about 9 percent. Only on October 28, 1929, when the Dow-Jones average plummeted 38 points, was a greater decline registered for a single day.

The subsequent recovery of the market did not at all match that of the President, exhibiting sharp fluctuations during the remainder of the month. The market may have been discounting in part a possible change in political climate next November and in part the fear of a downturn in business in 1956.

# ILLINOIS BUSINESS REVIEW

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## Psychological Shock

The vulnerability of the stock market was demonstrated by the sharp decline following the onset of President Eisenhower's heart attack. Commentators almost unanimously described it as a shock to speculative psychology, some viewing it as a preventive for further excesses, others as a passing event of little or no lasting significance.

From a personal point of view, the decline represents a major tribute to the President. It bespeaks the enthusiastic following he has won as head of state. Confidence in his leadership was replaced by fears of disaster if the government should fall into less capable hands.

### Where Individuals Don't Matter

Without detracting in any way from the President's accomplishments, it may be noted that these subjective reactions are in large measure mistaken. The course of government is not likely to be modified quickly if the reins of government are turned over to someone else in the next year or so, whichever party his successor may represent. Policies are hardly ever based on one man's decisions. The pressures from the electorate as a whole and from special segments of the community seldom allow a president much freedom. Occasionally a strong man assumes office, but his accession may mark the crystallization of community feeling on an important issue. Today, the country is highly unified on the broad outlines of policy, both domestic and international, and any important modification in policy would have to overcome tremendous inertia.

In our economic affairs, the importance of the individual is even less than in the realm of politics. The impact of any individual's decision is quantitatively limited, and its effects are moderated by the adverse decisions of other persons or groups moving in the opposite direction. The differences average out. The elder retires, the youth assumes responsibility, and the situation as a whole is not greatly changed. Things sometimes go on as if the individual doesn't count for anything at all.

At first glance, this detached view of the individual's worth to the economic community may seem rather shocking. The contrary view, which gives rise to this feeling, is based partly on our democratic philosophy, which elevates the welfare of the individual to the final

goal of action. There is no argument on this point. We desire an economy directed toward meeting the wants of a free people. We feel that the individual's choice of a way of life must somehow determine what the economy is to accomplish. But in working toward that goal, the economy must maintain continuity and progress, and cannot become dependent on any individual. Not only is it unnecessary for the economy to lean heavily on any particular person or group, it is important that it should not do so.

Thus, the economy tends to go its own way in apparent disregard of what persons may say or do. Its movements are not completely determined, of course, but they progress through broad swings despite contrary decisions on the part of individuals who refuse to go along. When an individual holds back, like the mail order executive who refused to expand operations, he creates a vacuum into which others may move at his expense, maintaining the level of over-all activity. When another extends himself too far in seeking to take undue advantage of a situation, like the two new companies that entered the auto industry after the war, he incurs another kind of penalty. Defeat is likely to await any person or concern who struggles too strongly to avoid the requirements imposed by the economic environment.

### Pre-Conditioned for a Setback

At this point the line of thought we have been pursuing breaks, running off along two seemingly divergent paths. On the one hand, if the individual is held to count for so little, it would seem that there must be something more than the incident of one person's misfortune to account for a severe market reversal. On the other, although the individual may be relatively insignificant, the sum of all individuals may not necessarily be so. An adequate explanation of the current situation requires that these two lines of thought be reconciled.

It would be futile to deny that when the sum total of economic men move in a certain direction, their action could be without effect. Ordinarily they move together only when there is real justification for such action. At times, however, there are concerted movements to extremes that are not justified by the underlying state of the economy. In a surge of optimism, the group as a whole may move too fast and extend itself too far. But when it does, it, too, finds its mistake revealed after a while.

Some of the enthusiasts who scoff at this idea insist that the economy is only an aggregation of persons and cannot do otherwise than they determine. This overlooks the fact that the economy is also an aggregation of things—goods of all kinds, capital equipment, and the structures in which we live and work. These things also influence the outcome. In fact, the rates of accumulation and disappearance of things ordinarily determine the decisions of persons. Too much may be accumulated, for a while, and the prices paid for each unit may be too high, but the movement cannot go on beyond the point where the excesses become apparent.

In an upswing of this kind, there are usually indicators which may be regarded as justifying the actions taken. Pressure of peak operations on available supplies tends to be magnified into artificial shortages by over-ordering. If the shortages are aggravated by strikes, as in copper, or by speculation, as in rubber, the price rises may be rapid. The shortages always seem most acute at

(Continued on page 6)



### TALKING TURKEY

Traditionally, turkey heads the Christmas and Thanksgiving menus for the average American family—a custom which originated with the early New England colonists. At that time, wild turkeys were abundant in almost all parts of the United States and the early settlers found the neighboring forests almost as convenient as poultry yards. Today, with wild turkeys greatly reduced in numbers, the breeding and rearing of domesticated varieties has become a significant part of the American poultry industry.

The turkey is one of the few classes of domestic livestock which have their origins in America, and the many existing varieties are all descendants of the wild turkey which was partially domesticated by the Indians long before the discovery of this continent. The industry, however, is not limited to America. The birds were imported into Spain from America during the early sixteenth century and became distributed throughout the rest of Europe and England. In fact, some of the domesticated English and European stocks were brought back to America by later colonists and became the forerunners of our present six major varieties.

#### The Industry

Turkey growing is only a minor livestock industry despite its being one of the oldest agricultural pursuits in the country. This is because turkey in the past has been treated as a holiday dish, with sales restricted largely to Thanksgiving and Christmas.

The fact that prior to 1930 turkey growers had a tendency to breed large-sized turkeys, some weighing as much as 40 pounds, undoubtedly helped restrict family use of the birds. In recent years, efforts have been made to develop a small-sized strain of turkeys with a view toward meeting the demands of many housewives for dressed turkeys weighing 12 pounds or less. As a result, the turkey has increased in importance and the general public has become more conscious of the turkey, not only as a holiday treat, but as an added feature of everyday diet.

The average turkey grower has a considerable amount of capital invested in his farm. A minimum of 20 acres of actual range is needed for each 1,000 birds. Average costs of raising 1,000 turkeys might include \$700 for poults (baby turkeys), \$2,340 for feed, \$750 for labor, and \$245 for fuel, equipment, interest, and taxes, a total of \$4,035. If his turkeys average 20 pounds in weight, and he has 20 percent mortality, at 1954 prices of 28.8 cents a pound his remaining 800 birds would bring him \$4,608, leaving him a profit of \$573—not counting land cost. A sudden variation in market prices or in the cost of feed could mean the difference between prosperity and ruin.

Despite these problems, output of the turkey industry grew from 15 million birds in 1924 to 66 million in 1954, total sales in the latter year amounting to \$325 million. Further increases in production hinge upon the ability of the industry to "educate" the consumer to accept turkey as part of his regular diet. The potential turkey-eating

capacity of the consumer has by no means been reached, since only a little over one-third of a turkey per person is currently produced per year.

#### Development in Illinois

In 1890 Illinois ranked first in the nation in turkey production with 1,044,000 turkeys out of a national total of 10,754,000. However, by 1900 Illinois had fallen to third place with only 446,000 of 6,595,000 birds raised. During this period Illinois turkeys were hit by a disease scourge. As a result, farmers became discouraged, and the industry never recovered its position of prominence.

The development of modern commercial turkey feeds, artificial incubation and brooding, and new methods of disease control opened the way for large-scale commercial growing, which made its first appearance in the State in the late 1920's. The old farm sideline flock of 50 to 100 birds has gradually faded out of the picture and the majority of the farms that now produce turkeys raise from 1,000 to 5,000 birds annually. However, among the 250 turkey farms located in Illinois there are approximately 20 that may be classified as large-scale producers with flocks of over 10,000 birds each.

During 1954, Illinois turkey growers raised 926,000 birds, approximately the same number that they have been raising annually for the past 10 years. For the most part, Illinois growers dress and merchandise their own turkeys. As such, their business is mostly local, and few growers care to increase their production, since to do so would involve added expense, not only in processing, but in marketing as well.

#### Limits of Growth in Illinois

The large turkey producer is the only one likely to expand in this State. A good example is the Howard Kauffman Turkey Farm of Waterman, largest in Illinois, which has increased its production from 300 turkeys in 1933 to 72,000 in 1955. However, it is the exception rather than the rule in that it keeps its own breeding flock, has its own hatchery, and operates its own feed mill, thus keeping costs down to a minimum.

The fact that Illinois annually consumes three times the amount of turkeys raised locally might seem to offer a lucrative market for increased production, but here another factor becomes apparent. Turkey breeding and poult hatching tend to be more important in Illinois than growing for the consumer market, and most of the turkey poults are shipped to out-of-state growers with only a small percentage actually raised locally.

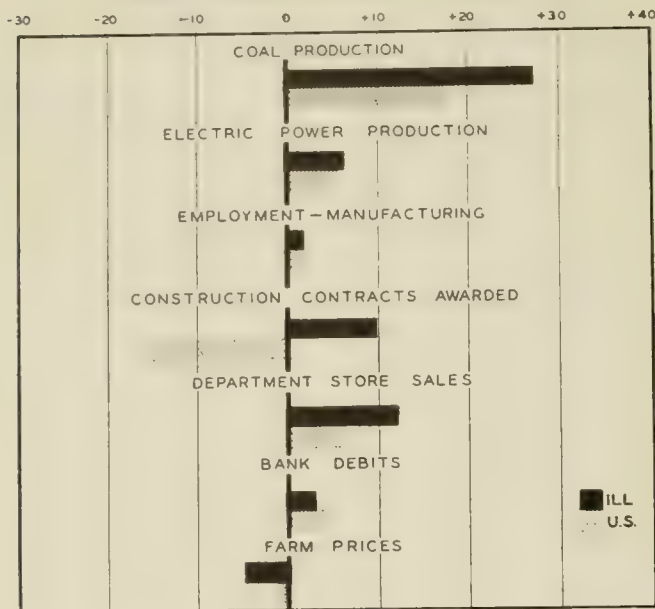
It appears that the development of smaller and better varieties of turkeys may promote the gradual expansion of the industry on a national basis. However, the average Illinois farmer does not seem inclined to undertake the added responsibility of a large complicated enterprise such as turkey raising, especially in view of the fact that a more certain income may be realized through other types of farming on our highly productive soil.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes July, 1955, to August, 1955



## ILLINOIS BUSINESS INDEXES

Item	August 1955 (1947-49 = 100)	Percentage Change from	
		July 1955	August 1954
Electric power <sup>1</sup> .....	223.3	+ 6.5	+22.3
Coal production <sup>2</sup> .....	76.4	+27.3	+17.7
Employment—manufacturing <sup>3</sup> .....	106.3	+ 1.7	+ 5.6
Weekly earnings—manufacturing <sup>3</sup> .....	141.8	- 1.0	+ 7.2
Dept. store sales in Chicago <sup>4</sup> .....	108.0 <sup>a</sup>	- 6.9	+ 0.9
Consumer prices in Chicago <sup>5</sup> .....	118.5 <sup>b</sup>	+ 0.3	+ 0.7
Construction contracts awarded <sup>6</sup> .....	329.7	+ 9.8	+49.6
Bank debits <sup>7</sup> .....	156.0	+ 2.8	+11.0
Farm prices <sup>8</sup> .....	77.0 <sup>c</sup>	- 4.9	-13.5
Life insurance sales (ordinary) <sup>9</sup> .....	198.5	+ 6.8	+29.0
Petroleum production <sup>10</sup> .....	134.7	+ 0.8	+35.5

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.

<sup>a</sup> July, data; comparisons relate to June, 1955, and July, 1954. <sup>b</sup> Seasonally adjusted. <sup>c</sup> Revised series.

## UNITED STATES MONTHLY INDEXES

Item	August 1955	Percentage Change from	
		July 1955	August 1954
	Annual rate in billion \$		
Personal income <sup>1</sup> .....	305.0 <sup>a</sup>	- 0.1	+ 6.4
Manufacturing <sup>1</sup> .....			
Sales.....	328.8 <sup>a</sup>	+ 2.6	+18.6
Inventories.....	44.3 <sup>a, b</sup>	+ 0.9	+ 2.8
New construction activity <sup>1</sup> .....			
Private residential.....	17.9	- 2.0	+13.6
Private nonresidential.....	15.3	+ 2.6	+11.2
Total public.....	14.6	+ 1.8	- 1.8
Foreign trade <sup>1</sup> .....			
Merchandise exports.....	15.2 <sup>c</sup>	- 3.8	- 1.9
Merchandise imports.....	10.6 <sup>c</sup>	- 5.7	+ 7.7
Excess of exports.....	4.6 <sup>c</sup>	+ 0.9	-18.7
Consumer credit outstanding <sup>2</sup> .....			
Total credit.....	33.6 <sup>b</sup>	+ 2.2	+17.1
Installment credit.....	26.2 <sup>b</sup>	+ 2.7	+19.4
Business loans <sup>2</sup> .....	24.2 <sup>b</sup>	+ 2.7	+16.2
Cash farm income <sup>3</sup> .....	24.7 <sup>c</sup>	+ 5.8	- 5.8
	Indexes (1947-49 =100)		
Industrial production <sup>2</sup> .....			
Combined index.....	140 <sup>a</sup>	+ 0.7	+13.8
Durable manufactures.....	158 <sup>a</sup>	+ 1.9	+17.0
Nondurable manufactures.....	126 <sup>a</sup>	0.0	+10.5
Minerals.....	120 <sup>a</sup>	0.0	+10.1
Manufacturing employment <sup>4</sup> .....			
Production workers.....	106 <sup>a</sup>	- 0.3	+ 6.7
Factory worker earnings <sup>4</sup> .....			
Average hours worked.....	102	+ 1.0	+ 2.8
Average hourly earnings.....	142	0.0	+ 5.6
Average weekly earnings.....	145	+ 1.0	+ 8.5
Construction contracts awarded <sup>5</sup> .....	248	-16.6	+20.5
Department store sales <sup>2</sup> .....	118 <sup>a</sup>	- 4.8	+ 6.3
Consumers' price index <sup>4</sup> .....	115	- 0.2	- 0.4
Wholesale prices <sup>4</sup> .....			
All commodities.....	111	+ 0.3	+ 0.3
Farm products.....	88	- 1.6	- 8.0
Foods.....	102	- 1.2	- 4.2
Other.....	117	+ 0.8	+ 2.6
Farm prices <sup>3</sup> .....			
Received by farmers.....	86	- 1.1	- 6.5
Paid by farmers.....	112	0.0	0.0
Parity ratio.....	84 <sup>d</sup>	0.0	- 5.6

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp. <sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for July, 1955; comparisons relate to June, 1955, and July, 1954. <sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1955					1954
	Sept. 24	Sept. 17	Sept. 10	Sept. 3	Aug. 27	Sept. 25
Production:						
Bituminous coal (daily avg.).....	1,605	1,662	1,714	1,587	1,622	1,377
Electric power by utilities.....	10,756	10,580	10,155	10,706	10,906	9,072
Motor vehicles (Wards).....	147	144	95	101	150	69
Petroleum (daily avg.).....	6,671	6,684	6,655	6,662	6,685	6,184
Steel.....	135	134	131	131	127	95
Freight carloadings.....	819	822	706	794	792	710
Department store sales.....	121	125	108	125	111	118
Commodity prices, wholesale:						
All commodities.....	111.4	111.4	111.1	110.5	110.5	110.0 <sup>a</sup>
Other than farm products and foods.....	117.9	117.9	117.8	117.1	117.0	114.4 <sup>a</sup>
22 commodities.....	89.6	89.8	89.8	89.2	89.2	90.7
Finance:						
Business loans.....	24,570	24,400	24,080	24,171	24,050	21,005
Failures, industrial and commercial.....	171	191	205	215	180	212

Source: Survey of Current Business, Weekly Supplements.

<sup>a</sup> Monthly index for September, 1954.



# RECENT ECONOMIC CHANGES

## Employment, Unemployment Down

Employment declined in September as high school and college students dropped out of the labor force to return to their classrooms. Employment totaled 64.7 million workers last month compared with 62 million a year ago and in September, 1953. Unemployment continued its moderate downtrend, dropping by 88,000 to 2.1 million. This amounted to 3.2 percent of the labor force compared with 4.8 percent in September, 1954. Census data in thousands of workers are as follows:

	Sept. 1955	Aug. 1955	Sept. 1954
Civilian labor force.....	66,882	67,725	65,244
Employment.....	64,733	65,488	62,145
Agricultural.....	7,875	7,536	7,527
Nonagricultural.....	56,858	57,952	54,618
Unemployment.....	2,149	2,237	3,100

## Price Stability Continues

Most consumer and commodity prices continued stable into the third quarter. The over-all consumer price index, at 114.5 in August, remained within the range of 112 to 115 percent of the 1947-49 base period that has existed since late in 1951. The wholesale price index has held steady between 109 and 111 percent since the beginning of 1953.

Stability of both retail and wholesale prices has resulted from the offsetting movements of their components. Consumer food prices, after declining in the second half of last year, have been rising slowly this year. Rents also continued slowly upward. The major offset to these advances has occurred in the transportation index, with declines in new and used cars concentrated in the actual prices, as opposed to the nominal list prices.

Wholesale price components have diverged more

widely from the average than has been the case with consumer prices. Primary market prices of farm products, which have been declining more or less steadily since early 1951, are currently about a tenth below 1953. Prices of processed foods have also tended downward but at a slower rate. These declines have been balanced by rising prices of industrial commodities. The accompanying chart illustrates important price changes that have occurred in the past year. The advances are largely confined to items that reflect the fast pace of activity in the auto, construction, and producers' durable goods industries. Other prices have been relatively unchanged over the past year.

## Crop Prospects Deteriorate

Crop losses in the drought-stricken Central Plains and Midwest and in the hurricane-ridden East have cut sharply into earlier anticipations of production of some crops in 1955. Nevertheless, the Crop Reporting Board, according to its September 1 report, still expects 1955 output to be second only to 1948. The crop production index dropped 2 percent from August, leaving it only 2 percent below the 1948 record. The index of yields per acre, though also down from August, continued well above the 1948 record.

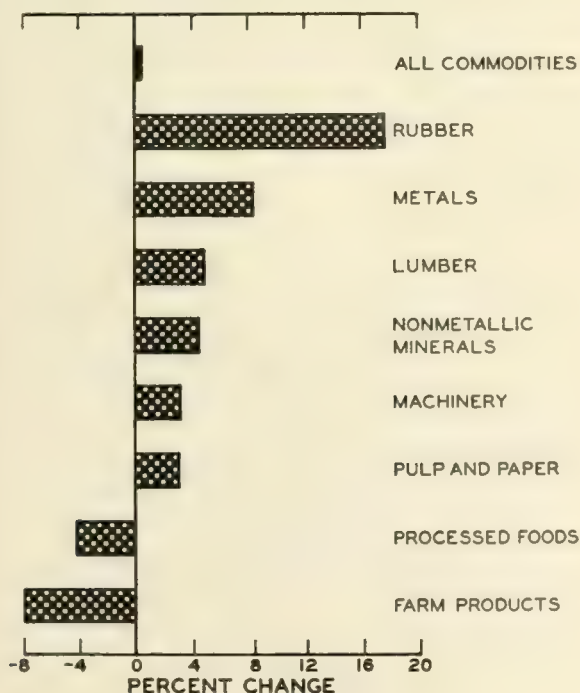
Corn, soybeans, and grain sorghums were hit hardest by low rainfall and high temperatures in July and August. In July a corn crop of 3.4 billion bushels was forecast, but the estimate was cut to 3.1 billion bushels by September. The present corn crop ranks only fifth among those of the past seven years. Soybean prospects were off one-twelfth in August to 388 million bushels. However, this exceeds the previous record by 14 percent. Sorghum grain output is expected to match the 1950 record, but prospects in major producing areas for even this drought-resistant grain were sharply reduced from earlier indications. In the East, losses in tobacco, vegetables, and other crops because of hurricane and flood damage were more limited and were expected to be offset by late forage growth in larger adjoining areas.

## The Consumption Boom

Business expansion in 1955 is being spurred on by the free-spending, free-borrowing attitude of consumers. Consumers spent 94 cents out of each dollar of disposable income in the first half of this year compared with about 92 cents in the period from 1951 through the first half of last year, according to an article in the September *Survey of Current Business*. Hence, with the annual rate of disposable income at \$264 billion, consumer expenditures (also at an annual rate) were \$4 billion higher in the first half of 1955 than they would have been if the past two years' average ratio of 92.5 percent had been maintained. An important boost to consumption expenditures this year has been supplied by the unprecedented rise in consumer credit. In the first half, consumers financed an annual rate of \$5 billion of their durable goods purchases with installment credit. This accounts for more than the total advance in consumption that has resulted from the unusual rise in the spendings ratio.

An increased share of this year's higher income has gone into expenditures for durable goods. In the first six months of 1955, consumers spent 13.1 percent of their income for durables, compared with about 11.5 percent in 1954 and 12 percent in 1953. The largest relative increase has been in the share of income spent for autos and auto

SELECTED WHOLESALE PRICES  
(Percent changes, Aug., 1954, to Aug., 1955)



Source: Bureau of Labor Statistics.

parts. These expenditures amounted to 6.3 percent of income this year compared with less than 5 percent last year and less than 5.5 percent in 1953.

## Income Dips Slightly

The rapid rate of increase in personal income evidenced through July of this year was interrupted in August. Personal income declined slightly to \$305 billion (seasonally adjusted annual rate) from \$305.3 billion in July. The decline resulted from a reduction in payments to Federal government employees, who had received retroactive payments of \$140 million in July under the recent pay increase voted by Congress. Income from all other sources rose by \$125 million, or an annual rate of \$1.5 billion, in August.

For the first eight months of 1955, the seasonally adjusted annual rate of personal income amounted to \$299.3 billion, 4 percent above the same 1954 period. Most of the gain has centered in higher wage and salary payments to employees in private industry.

## Steel Output

Steel production in August amounted to 9.6 million tons, up 5 percent from July. Weekly data indicated that the August increase was extended into September, despite lower auto production at the beginning of the new model year. For the first eight months of 1955, steel ingot output ran almost a third above the same 1954 months, but was still 1 percent below the first eight months of 1953.

Actually steel production has not recovered as much as output of some of the major steel consumers. The auto industry, which consumed about a fifth of the steel produced in 1953, for example, turned out 22 percent more

autos and trucks in the first eight months of 1955 than in the same months of 1953. Expenditures for new construction, an industry which has consumed from 15 to 20 percent of steel output in the postwar period, were 19 percent above the first eight months of 1953. Output of transportation equipment so far in 1955 has also averaged somewhat higher than in the corresponding period of 1953. On the other hand, production of machinery, fabricated metal products, and other steel users, though up sharply from the 1954 lows, are still running below peak 1953 levels.

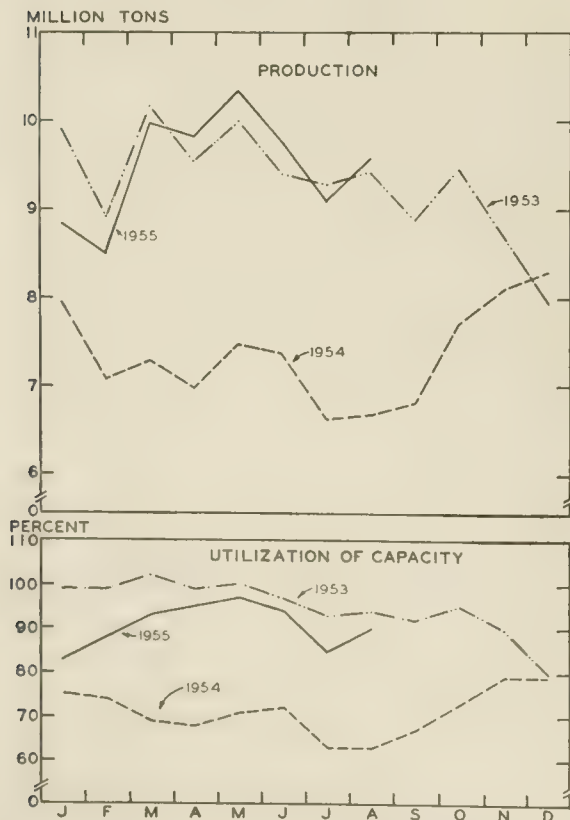
Although the steel industry produced nearly as much in the January-August period this year as in 1953, utilization of theoretical capacity has been less (see chart). Annual steel capacity at the beginning of 1955 amounted to 125.8 million tons, 8.3 million tons higher than at the beginning of 1953.

## Regional Housing Vacancies

Final results of the Census Bureau's survey of housing vacancies indicate that, although vacancy rates are relatively low throughout the country, there is a fair amount of variation by regions. Vacant housing for sale or rent in the second quarter amounted to 2.3 percent of all dwelling units. This compares with 1.6 percent in 1950. Among the four geographic regions in the country, the lowest vacancy rate, 1.2 percent, was reported for the Northeast. In the North Central Region, 1.7 percent of existing dwelling units were vacant, whereas rates were considerably higher in the South, 2.9 percent, and in the West, 3.9 percent.

The percentage of vacant housing is lower within metropolitan areas, including the suburbs of large cities, than in other areas. City vacancies amounted to 2.0 percent compared with 2.7 percent elsewhere.

### STEEL ACTIVITY



Source: American Iron and Steel Institute.

## Psychological Shock

(Continued from page 2)

the peak, and the rising prices make the threat of inflation look real. Borrowing to finance the extreme spurt of expenditures is heavy, and the monetary authorities are induced to impose restraints, forcing interest rates, especially short-term rates, higher. These are typical symptoms, not only of inflation, but of temporary spurts in a situation where there is hardly any prospect at all of continuing inflation. The economy may then be said to be pre-conditioned for a setback.

Under these circumstances, any kind of shock may bring on the decline. The source of the shock may be economically unimportant in itself, like the President's illness, but since the economy is sensitized, the effect is like that of a more serious development. The reversal is in reality not a consequence of the event itself, but of the position previously attained. It had, in effect, become an economic necessity. Only the timing of its appearance was in question.

At the moment, the effects of the change are not clearly apparent outside the stock market. In the market, their importance lies in making it clear that prices can go down fast. Those who have decided to reduce their holdings in the light of this fact are now placing a restraint on recovery. If the economic situation begins to deteriorate before this liquidating movement is completed, the President's heart trouble may well mark the end of a great bull market.

VLB



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### For a Warmer Winter

An electrically heated rubber mat, called the Electro-mat, has been designed for the many persons in offices and plants who complain of cold feet during the winter months. The mat is manufactured by the Interstate Rubber Products Corporation, 908 Avila Street, Los Angeles 12, California. Its electric power consumption is about that of a 100-watt light bulb, and the retail price is \$7.95.

Westinghouse Electric Corporation, 410 Bush Street, San Francisco, has recently announced economical base-board heating with electricity. The heaters come in two-foot sections which may be installed against the wall or recessed. The control panel allows room-by-room use of the system, thereby conserving heat and electricity.

### Sales Aids

Of interest to both manufacturers and distributors is a push-button grocery store now being manufactured by Vari-Vend, Inc., of Chicago. It is a super vending machine able to handle 36 products including dairy items, meat, eggs, and bread. The machine is designed for use in large apartment buildings or for after-hours service in grocery and dairy stores. It sells for \$1,295.

To those who wish to reach stores rather than the consumer directly, two new directories are of interest. The 1955 *Directory of Department Stores* lists more than 3,000 companies operating almost 11,600 stores, including both chains and independents. It also gives the headquarters address, the buying offices, merchandising managers, and other information important to potential sales-

men. The volume is put out by Department Store Guide, Inc., 2 Park Avenue, New York 16, at a price of \$40 per copy.

A similar volume for variety stores has been compiled by Variety Store Merchandiser Publications, 192 Lexington Avenue, New York 16. In addition to listing the buyers, headquarters, and lines of 1,400 variety chains, the directory contains information about independent stores, manufacturers of variety merchandise, jobbers, wholesalers, and equipment suppliers. Titled the 1955 *Directory of the Variety Market*, it sells for \$15 per copy.

### Business Failures

A comprehensive study of business failures since 1940 has recently been completed by Dun and Bradstreet, Inc. *The Failure Record through June, 1955* classifies the data by location, industry, and age of the firm.

Significantly, California has passed New York as the state with the highest failure rate, although the latter still records the largest absolute number of failures. The rates range from a high of 117 per 10,000 firms in the Pacific states to only 14 per 10,000 in the West North Central area.

Retail trade concerns continue to account for the largest number of failures. Children's stores rank highest in failure rate, with appliance and sports stores not far behind. Package liquor stores boast the lowest rate, 8 per 10,000 as compared with 106 for children's stores. Mining and manufacturing firms rate second in number of failures, with furniture having the highest rate and lumber the lowest.

The failure rate is highest among new firms. Almost 60 percent of the failures come in the first five years, whereas less than 15 percent occur after 10 years.

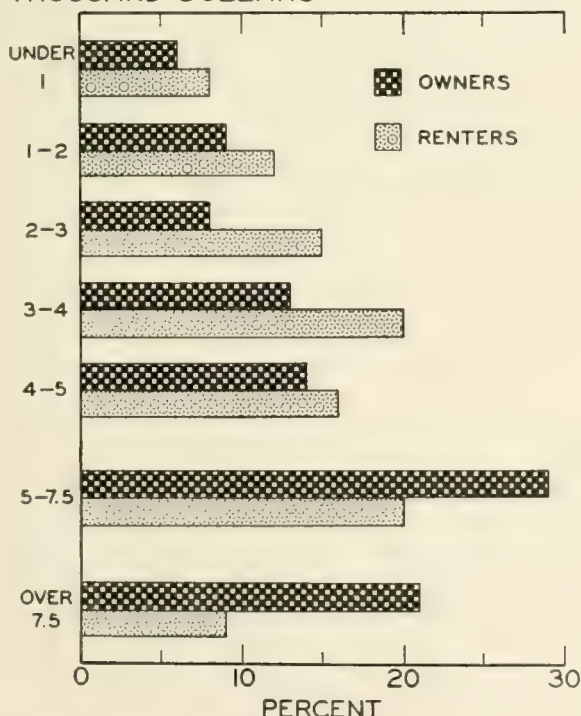
### The Vanishing Tenant

The trend toward home ownership continues. Since the turn of the century the number of owner-occupied houses has increased from 35 percent of all dwellings to 57 percent. In the last decade the number of owners has increased by about one-third. In part this large recent growth stems from high incomes and favorable mortgage financing. In large measure, however, the boom is merely a catching up from the disruption in the trend caused by the depression in the 1930's and the war in the early 1940's.

The proportion of persons owning their own homes increases with income level. For families with incomes under \$4,000 it is less than 45 percent, whereas for those with incomes over \$7,500 it is 75 percent. In general a larger portion of owners are in the higher income classifications and a large portion of renters are in the lower brackets. The differences, however, are not extreme, as is shown in the accompanying chart.

At least partly because incomes and savings tend to increase with age and also because older persons are more likely to be settled geographically, home ownership rises with age. The great jumps come in the earlier decades of family life. When the head of the household is between 18 and 25 years of age only 15 percent of the families are owners, whereas between 25 and 35 years the proportion increases to 43 percent and in the next ten years to about 60 percent.

HOME OWNERSHIP, BY INCOME GROUPS  
THOUSAND DOLLARS



Source: Federal Reserve Board.

# THE AUTOMOBILE INDUSTRY

HANS BREMS, Associate Professor of Economics

For at least three distinct reasons, the automobile industry has recently attracted the attention of economists. The first is the unprecedented volume of output, running close to eight million units for 1955 as estimated by the industry itself. The second is the precarious situation of the independents, whose shares of the market are still running very much below their shares in the early 1950's. The third is the acceptance by the automobile industry of at least the principle of a guaranteed annual wage. The latter has recently been treated in the columns of this *Review*, so we shall confine ourselves to the first two subjects, i.e., output volume and market shares.

During the first nine months of 1955, 6.00 million passenger cars have been produced. This figure is higher than any previous first-nine-months figure. The previous record was set in 1950, when 4.99 million cars were produced during the first nine months. For the last three years the first-nine-months output has been as follows: 1953, 4.84 million; 1954, 4.12 million; and 1955, 6.00 million.

The 1955 figure has aroused optimism in the industry. "There is nothing," the president of the Studebaker-Packard Corporation told the press in September, 1955, "indicated in the present picture to show that 1956 will be anything less than 1955." At least to the present writer there are serious doubts on this point.

## Size of the Normal Market

Roughly speaking, the "normal" output of automobiles depends upon two structural characteristics of the market, i.e., the rate of growth of the total stock of automobiles, and the average useful life of an automobile. The rate of growth of automobile stock determines the number of new cars needed to satisfy a larger population with higher real income increasingly on the move to the suburbs. The useful life determines the number of new automobiles needed to replace retired cars. (Ignoring the time a used car spends on the dealer's used-car lot we can say that when a new-car buyer trades in his used car, the latter will replace somebody else's still older car which in turn will replace someone's still older car until at the end of the chain a jalopy is junked.) What, then, are the values of the two structural characteristics, growth rate and useful life?

TABLE 1. PASSENGER CARS IN OPERATION IN THE UNITED STATES AS OF JULY 1, 1950-54

Year	Millions	Rate of growth
1950	35.9	
1951	38.5	7.2%
1952	39.8	3.4
1953	42.2	6.0
1954	44.4	5.2

Table 1 reproduces available information about the growth rate of automobile stock. Growth was abnormally low during the war and abnormally high after the war, but since 1950 the growth rate has settled at around 5.5 percent per annum. (The entire growth from 35.9 million cars in 1950 to 44.4 million in 1954 corresponds to a compound rate of growth of 5.5 percent per annum.) It might be added that the United States Bureau of Public Roads has estimated the rate of growth of passenger car stock

from 1954 to 1955 at 5.1 percent, corresponding very well to the over-all average for 1950-54.

Table 2 reproduces data for the average scrapping age of automobiles calculated by the Automobile Manufacturers Association. The general impression is that scrapping age has increased slowly during prewar years and

TABLE 2. AVERAGE RETIREMENT AGE OF AUTOMOBILES, SELECTED YEARS

Year	Age in years
1925	6.5
1930	7.0
1935	8.3
1941	10.2
1952	14.3

rather abruptly between 1941 and 1952. The figure for the latter year, however, is influenced by abnormal wartime circumstances and will no doubt have to be somewhat reduced when used for prediction purposes.

All in all, then, a figure between 4 percent and 6 percent for the annual growth rate of automobile stock and a figure between 10 and 12 years for the useful life of an automobile would not seem entirely implausible. Mathematical methods will reveal that the "normal" automobile output under such circumstances corresponding to a 44 million automobile stock will be somewhere between 4.7 and 6.0 million units annually. This is very considerably less than the current output of close to 8 million units. Deviations of such magnitude are, of course, perfectly possible. The "normal" level is the level that can be expected in a smoothly growing automobile stock of even age distribution. But in any particular year the actual level may be much larger, just as the schoolrooms will be temporarily very crowded as a particularly large and numerous generation passes through school age.

What is happening, then, in 1955 is something that can be called "abnormal." Pushing new-car sales as vigorously as has been done by factories in 1955 will, first, depress new-car prices as actually paid by consumers. Dealer's profit here takes the first beating, with new-car prices shaved or discounted, and already the trade press abounds with letters from dealers blaming the present Ford-Chevrolet race for the low or negative profit margins they are experiencing. Second, however, dealers' attempts to dispose of the trade-ins will depress the used-car market, and the second beating will be taken by the consumer who suffers faster depreciation of the automobile he owns. Depressed used-car prices constitute a powerful stimulus to earlier retirement of jalopies (a slightly better used car costs so little). Thus the price mechanism will stimulate shorter life, enabling the market to absorb all the new cars, if not without pains.

There is some evidence of a short-run reduction of useful life temporarily reversing the long-run trend toward longer lives. This sort of thing is bound to happen when abnormally high sales are accompanying normally growing automobile stock. But there is as yet no indication that the structural characteristics, the growth rate and the useful life, have changed *nearly enough* to permit the current very high ratio between output and stock to last.



## Trends in Shares of Individual Producers

Let us now leave aside the question of the size of the pie and concentrate upon its slices. Table 3 shows the market shares of the individual makes since the return to the buyer's market about 1948. To facilitate comparison with prewar market shares we have also reproduced the shares for the year 1941.

Things seemed pretty stable up to 1954. The independents had a little less than their 1941 shares except Nash which had more, but on the whole the independents did not seem to be in danger. In the fall of 1953, however, in a bid for industry leadership Ford increased output rapidly. The Ford share of the market began to grow, and in January, 1954, Ford offered the first short-stroke, overhead-valve V8 engine in the low-price market. With this superior product and plenty of capacity to produce it, Ford approached the Number One position. Ford raised its market share from 19.45 percent to 25.30 percent, a remarkable achievement. Chevrolet, however, maintained its position, rising from 23.39 percent to 25.61 percent. Ford claimed victory on the basis of adjusted figures, eliminating cars purchased by the companies themselves and by their dealers. Chrysler Corporation suffered badly in all its lines, chiefly because of the old Chrysler formula of putting function before style. Chrysler products had more favorable interior dimensions than other cars, were easier to get into and out of, and repeatedly were given high quality ratings by *Consumer Reports* on account of superior handling ability. However, they looked boxy, short, and tall, and did not sell well. From 1953 to 1954 the Chrysler Corporation share of the market dropped from 20.31 percent to 12.90 percent.

A similar or worse beating was taken by the independents, who were much more vulnerable financially. The year 1954 saw Kaiser-Frazer and Willys, newly merged, practically squeezed out of the market. As late as 1948 Kaiser-Frazer had been the world's fourth largest automobile producer with 4.76 percent of the United States market! Hudson, Studebaker, and Nash suffered, too. One reason was that the independents had not quite lived up to their prewar traditions as innovators. They were caught in the vicious circle of not having enough money to innovate and not making enough money because of lack of innovation. They were not even good imitators. Apart from Studebaker none of them had a short-stroke, valve-in-head V8 engine to offer by 1954, even in higher-priced lines. In a desperate attempt to escape the vicious circle they merged pair by pair. The year 1954 saw the formation of American Motors and the Studebaker-Packard Corporation. The former ruthlessly abandoned the unusually rigid and durable step-down Hudson produced since 1947 and concentrated on the stylish Nashes, some of which are now labeled "Hudson." As for the V8 situation, American Motors made arrangement with Studebaker-Packard Corporation to the effect that the

TABLE 3. NEW PASSENGER CAR REGISTRATIONS IN THE UNITED STATES, 1941 AND 1948-55

Make	1941	1948	1949	1950	1951	1952	1953	1954	1955 seven months
Buick.....	8.27%	7.01%	7.70%	8.47%	7.75%	7.47%	7.92%	9.28%	10.72%
Cadillac.....	1.61	1.70	1.67	1.61	1.92	2.11	1.72	1.99	2.04
Chevrolet.....	23.59	20.33	21.32	22.45	21.08	20.50	23.39	25.61	21.75
Oldsmobile.....	6.18	5.03	5.57	5.89	5.40	5.25	5.32	7.35	8.23
Pontiac.....	7.67	6.56	6.63	6.96	6.68	6.41	6.72	6.47	7.51
General Motors Total.....	47.32	40.63	42.89	45.38	42.83	41.74	45.07	50.70	50.25
Ford.....	16.14	13.95	16.67	18.43	17.04	17.61	19.45	25.30	21.23
Lincoln.....	.50	.93	.78	.54	.51	.70	.68	.65	.45
Mercury.....	2.19	3.94	3.86	5.03	4.61	4.47	5.02	4.88	5.12
Ford Total.....	18.83	18.82	21.31	24.00	22.16	22.78	25.15	30.83	26.80
Chrysler.....	3.83	3.02	2.70	2.39	2.95	2.73	2.68	1.84	2.37
DeSoto.....	2.44	2.36	2.14	1.82	2.23	2.20	2.13	1.39	1.78
Dodge.....	5.78	6.13	5.65	4.74	5.90	5.93	5.03	2.80	4.07
Plymouth.....	12.12	9.96	10.91	8.65	10.72	10.41	10.47	6.88	9.66
Chrysler Total.....	24.17	21.46	21.40	17.60	21.80	21.27	20.31	12.90	17.88
Hudson.....	1.96	3.14	2.85	2.12	1.91	1.89	1.16	.65	.67
Kaiser-Frazer.....	4.76	4.76	1.53	1.77	2.05	1.68	.58	.18	.02
Nash.....	2.09	2.98	2.80	2.79	2.78	3.43	2.40	1.49	1.37
Packard.....	1.87	2.22	2.02	1.15	1.32	1.59	1.24	.70	.76
Studebaker.....	3.07	4.10	4.12	4.24	4.06	3.80	2.81	1.73	1.50
Willys.....	.59	.61	.59	.54	.51	.99	.74	.31	.12
Miscellaneous.....	.10	1.28	.49	.41	.58	.83	.54	.51	.63
GRAND TOTAL—U.S....	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: *Automotive News*.

new Packard V8 engine is supplied on the higher-priced Hudsons and Nashes. Studebaker-Packard has done nothing similar; their two makes are in different size and price classes. But it is hoped that pooling of engineering and research will give results. So far, however, the independents have failed to increase their share in 1955.

Financially, the independents are still far from safe. Table 4 shows the disastrous effect upon profit rates of the 1954 drop in market shares: all independents had negative net profits, and Chrysler was down at 1.8 percent of assets. The 1955 picture is not complete yet, but first-half profit rates are somewhat better. Studebaker-Packard is still unable to show profits, however. And one may well ask what a poor year would look like from the point of view of the independents if a record year like 1955 looks like Table 4. Automation is hoped to improve earnings, but automation requires even higher output volume to pay its way. Also, the guaranteed-annual-wage trend increases overheads and again pushes the break-even point to the right. All in all, the crisis of the independents is not over. Only to Chrysler does the 1954 nightmare seem a thing of the past.

TABLE 4. FINANCIAL RESULTS OF FIVE AUTOMOBILE MANUFACTURING COMPANIES

Company	Assets 12/31/1954 (millions)	Net profit (millions)		Net profit as percent of assets	
		1954	1955 1st Half	1954	1955 1st Half <sup>a</sup>
General Motors.....	\$5,130.1	\$806.0	\$661.0	15.7	25.8
Chrysler.....	1,034.6	18.5	70.0	1.8	13.5
American Motors.....	266.7 <sup>b</sup>	-11.1	0.9	-4.2	0.7
Studebaker-Packard....	245.8	-26.2	-9.6	-10.6	-7.8
Kaiser Motors.....	81.5	-35.5	1.2 <sup>c</sup>	-43.5	5.9

<sup>a</sup> Adjusted to annual basis.

<sup>b</sup> As of September 30, 1954, end of fiscal year.

<sup>c</sup> Quarter ended March 31, 1955.

Sources: *Fortune Directory of the 500 Largest U. S. Industrial Corporations*, Supplement to *Fortune*, July, 1955; and Standard and Poor Corporation.

# LOCAL ILLINOIS DEVELOPMENTS

August brought a sharp rise to the Illinois economy, with most indicators recovering all of the seasonal loss suffered a month earlier. Coal production bounced back with the greatest force, jumping 27 percent over July. Important gains were also recorded by steel, electric power, construction, department store sales, and life insurance sales.

The August spurt brought most indexes well above their corresponding 1954 levels. Construction contracts awarded were half again as large, and steel output and petroleum production were more than 35 percent greater. A rise of 10 to 30 percent was also reported for business loans at large Chicago banks, bank debits throughout the State, electric power, coal, and life insurance sales.

## New Record for Business Loans

Seasonal needs on top of booming business pushed business loans at leading Chicago banks to a new high in September, topping \$2.2 billion. The total outstanding at midmonth was nearly 10 percent above the May low this year and 13 percent above the year-ago level. As may be seen in the accompanying chart, the 1955 rise is sharply in contrast to the movement a year ago and very much stronger than that of 1953.

Both inventory accumulation and the high level of consumer spending are behind the gains. Agricultural processing firms and commodity dealers have greatly increased their borrowings to handle the harvest. Bank loans to sales finance companies have also shown a sharp rise this fall, in contrast to a drop last year when consumers were not so confident. Borrowings of trade concerns show preparations for the Christmas rush, and those of most other types of business reflect the buoyancy of business throughout the nation.

In coming months, stock-building and high sales will continue to buttress further seasonal demands for loans. In addition, auto sales are continuing at a rapid rate, with no noticeable slack resulting from model change-

overs. This year, too, a new factor will enter the picture, with businesses in general borrowing to meet some of their 1955 Federal tax liabilities in the last half of this year.

## Growth of Shopping Centers

Expanding residential areas and lack of downtown parking facilities have resulted in a surge of construction in Illinois. Modern shopping centers are springing up throughout the State. Many industrial communities already boast such developments and more have projects under way.

Prior to the construction of a shopping center a detailed economic analysis of the proposed area is generally undertaken. Both the primary and hinterland trading areas are examined as to recent and anticipated population growth, area income, stores already in operation or under construction, and the ease of transportation to existing stores compared with the proposed stores. From this study both the types and the sizes of stores needed can be determined.

Construction, real estate, and retail firms have all taken part in the initiation of such projects. The Village Market in LaGrange Park, for example, was built by a contractor in conjunction with an apartment development housing 350 families. In Decatur a large project called the Fairview Shopping Center has been started under the direction of a leading realtor in the area. In Chicago many of the large department stores have initiated developments in an effort to regain suburban business lost because of traffic and congestion downtown.

The northern part of the State, specifically the Chicago area, accounts for the majority of projects because of the population concentration. About 25 such centers are in operation or in process in the immediate area, more than a third of which are in the city proper as opposed to suburbs and outlying districts. Beyond the suburban fringe many of the industrial cities have shopping centers of their own. In Waukegan a center is being constructed near new residential developments in the northeastern section of town; its variety, household, apparel, and food stores will serve more than 6,000 persons in that area. Construction is nearing completion on a development in Aurora. Joliet has five shopping centers, all on the western side of town where most of the recent development has taken place. Although there are no shopping centers in Elgin as yet, at least three are under consideration to meet the expanding needs of that community. Kankakee expects to open its Meadowview Shopping Center this month; its primary market consists of the northern part of the city and the northern suburbs. In Rockford two centers are already in operation, three are under construction, and two more are planned.

Central Illinois also has its share of shopping centers. In addition to the Fairview project mentioned above, at least two other sites are under consideration in Decatur. There is only one shopping center in Peoria, the Sheridan Village center consisting of 21 stores. In rapidly growing west Champaign two shopping centers are planned for construction next spring, and possibly a third one as well.

In Carbondale three centers are developing around the city, two in newer residential areas and one near the expanding Southern Illinois University. East St. Louis also has one center in operation, and another is under construction.

BUSINESS LOANS BY CHICAGO BANKS

MILLIONS OF DOLLARS



Source: Federal Reserve Bank of Chicago.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

August, 1955

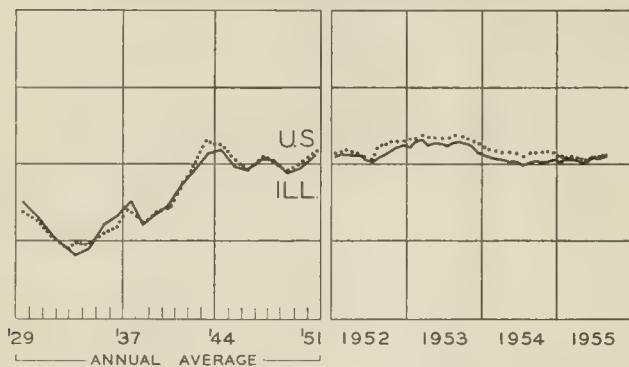
		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b>		<b>\$56,604<sup>a</sup></b>	<b>1,048,008<sup>a</sup></b>			<b>\$13,638<sup>a</sup></b>	<b>\$13,655<sup>a</sup></b>
Percentage change from	July, 1955	+87.7	+5.5		+12	+2.8	+21.7
	Aug., 1954	+94.3	+15.2		+5	+11.0	+6.3
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b>		<b>\$41,835</b>	<b>780,536</b>			<b>\$12,432</b>	<b>\$11,990</b>
Percentage change from	July, 1955	+129.0	+3.9		+12	+3.0	+23.0
	Aug., 1954	+92.7	+13.3		+4	+10.4	+6.5
<b>Aurora</b>		<b>\$4,069</b>	n.a.			<b>\$ 53</b>	<b>\$ 115</b>
Percentage change from	July, 1955	+705.7			+9	-3.9	+10.5
	Aug., 1954	+611.4			+5	+18.3	+9.9
<b>Elgin</b>		<b>\$ 373</b>	n.a.			<b>\$ 35</b>	<b>\$ 94</b>
Percentage change from	July, 1955	-27.7			+22	-1.9	+51.3
	Aug., 1954	-41.2			+4	+18.7	+1.2
<b>Joliet</b>		<b>\$ 396</b>	n.a.			<b>\$ 68</b>	<b>\$ 91</b>
Percentage change from	July, 1955	-58.5			+9	-0.6	+28.7
	Aug., 1954	-27.1			+8	+19.0	+12.9
<b>Kankakee</b>		<b>\$ 72</b>	n.a.			n.a.	<b>\$ 35</b>
Percentage change from	July, 1955	-66.0			n.a.		+3.6
	Aug., 1954	-48.2					-1.1
<b>Rock Island-Moline</b>		<b>\$ 944</b>	<b>22,446</b>			<b>\$ 86<sup>b</sup></b>	<b>\$ 141</b>
Percentage change from	July, 1955	+32.8	-1.6		n.a.	-3.9	+18.9
	Aug., 1954	+6.9	+24.9			+15.1	-12.7
<b>Rockford</b>		<b>\$1,538</b>	<b>37,022</b>			<b>\$ 156</b>	<b>\$ 168</b>
Percentage change from	July, 1955	-5.0	+8.3		-15 <sup>c</sup>	-4.1	+1.5
	Aug., 1954	-2.7	+27.9		+8 <sup>c</sup>	+21.9	+1.7
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b>		<b>\$ 314</b>	<b>7,988</b>			<b>\$ 60</b>	<b>\$ 116</b>
Percentage change from	July, 1955	+54.7	+14.6		n.a.	-0.3	+51.6
	Aug., 1954	-31.1	+21.1			+13.9	+63.6
<b>Champaign-Urbana</b>		<b>\$ 574</b>	<b>10,301</b>			<b>\$ 60</b>	<b>\$ 81</b>
Percentage change from	July, 1955	+1.2	+8.7		n.a.	-3.0	+19.1
	Aug., 1954	+218.9	+26.3			+33.5	+11.3
<b>Danville</b>		<b>\$ 389</b>	<b>11,027</b>			<b>\$ 49</b>	<b>\$ 55</b>
Percentage change from	July, 1955	+25.9	+0.5		+11	-6.4	-0.6
	Aug., 1954	+418.7	+21.7		+15	+20.0	+3.5
<b>Decatur</b>		<b>\$2,462</b>	<b>31,439</b>			<b>\$ 110</b>	<b>\$ 110</b>
Percentage change from	July, 1955	-9.9	+7.1		+3 <sup>c</sup>	-2.8	+27.2
	Aug., 1954	+409.7	+27.9		+5 <sup>c</sup>	+34.8	+0.8
<b>Galesburg</b>		<b>\$ 612</b>	<b>8,467</b>			n.a.	<b>\$ 32</b>
Percentage change from	July, 1955	+96.2	+11.0		n.a.		+8.5
	Aug., 1954	+47.1	+26.6				+2.9
<b>Peoria</b>		<b>\$1,118</b>	<b>56,458<sup>c</sup></b>			<b>\$ 208</b>	<b>\$ 225</b>
Percentage change from	July, 1955	-25.0	+20.5		+22 <sup>c</sup>	+2.9	+15.9
	Aug., 1954	+122.7	+22.7		+13 <sup>c</sup>	+16.2	+9.7
<b>Quincy</b>		<b>\$ 196</b>	<b>10,285</b>			<b>\$ 39</b>	<b>\$ 63</b>
Percentage change from	July, 1955	-74.5	+25.1		+20	+4.8	+12.0
	Aug., 1954	+4.8	+11.8		-1	+13.4	-10.0
<b>Springfield</b>		<b>\$ 643</b>	<b>34,637<sup>c</sup></b>			<b>\$ 112</b>	<b>\$ 198</b>
Percentage change from	July, 1955	+58.4	-0.2		n.a.	+7.1	-10.1
	Aug., 1954	+151.2	+13.2			+18.6	-2.3
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b>		<b>\$ 405</b>	<b>14,539</b>			<b>\$ 131</b>	<b>\$ 65</b>
Percentage change from	July, 1955	+35.9	+20.6		n.a.	+15.0	-3.3
	Aug., 1954	+226.6	+7.1			+4.2	+1.9
<b>Alton</b>		<b>\$ 165</b>	<b>14,870</b>			<b>\$ 38</b>	<b>\$ 29</b>
Percentage change from	July, 1955	+8.6	+15.5		n.a.	+1.0	+0.8
	Aug., 1954	+43.5	+14.0			+14.2	+7.5
<b>Belleville</b>		<b>\$ 499</b>	<b>7,993</b>			n.a.	<b>\$ 47</b>
Percentage change from	July, 1955	+272.4	+24.2		n.a.		+22.6
	Aug., 1954	+75.7	+19.8				+9.6

<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Data for July are not available. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

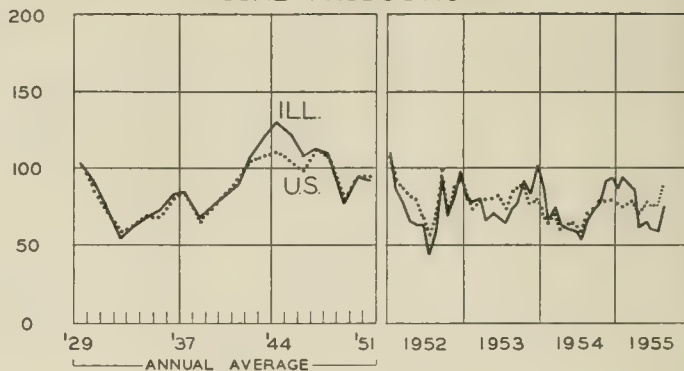
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

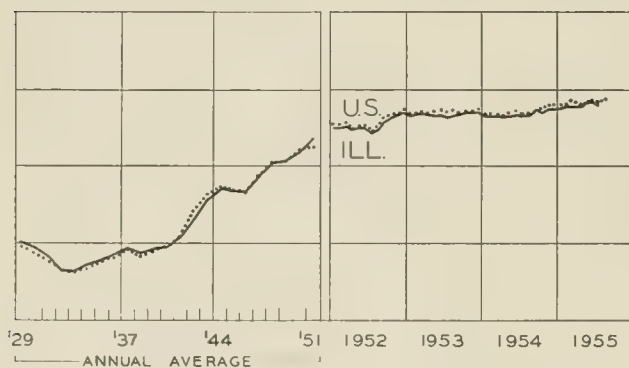
EMPLOYMENT - MANUFACTURING



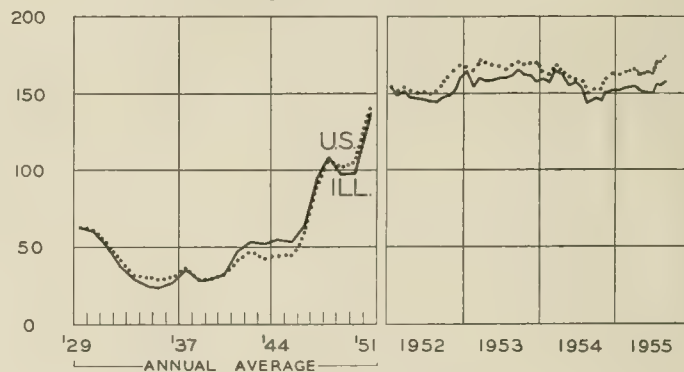
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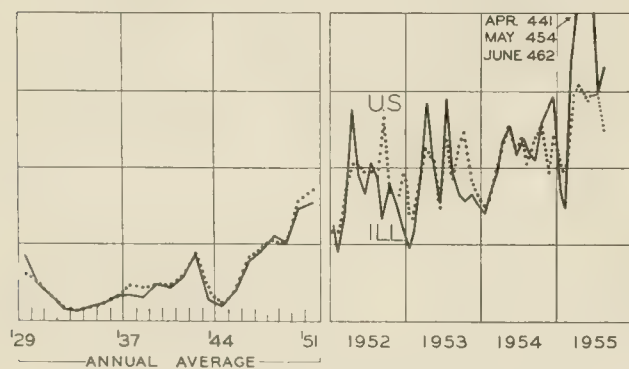
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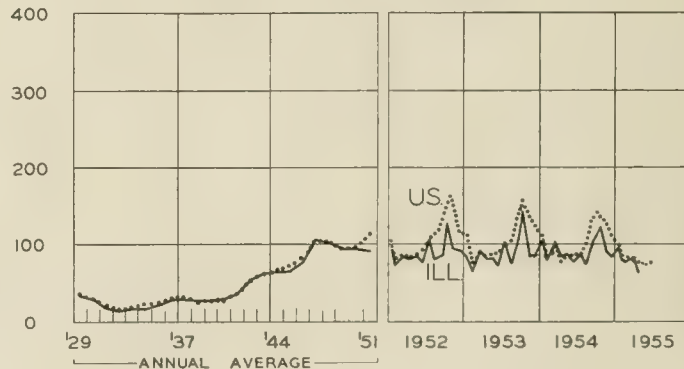
BUSINESS LOANS



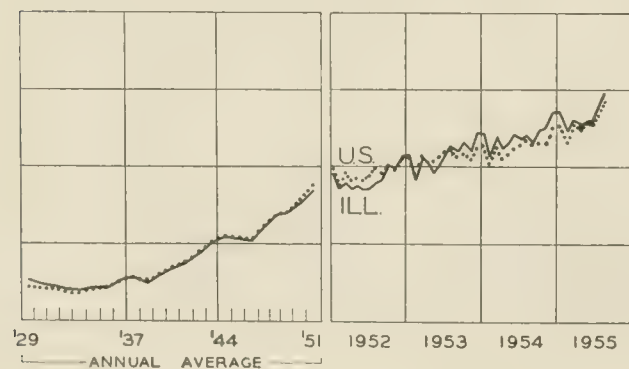
CONSTRUCTION CONTRACTS AWARDED



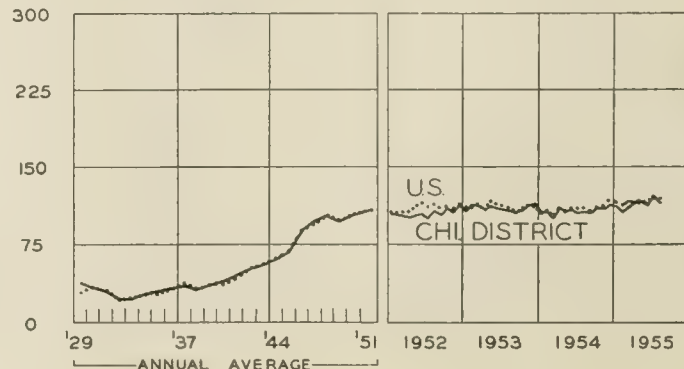
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES





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# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
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## HIGHLIGHTS OF BUSINESS IN OCTOBER

With the exception of the farm sector, business activity in October continued to forge ahead. Such key indicators as electric power output, railroad carloadings, and steel production were at or near peaks for the year. At the same time, retail trade appeared to be in for a banner fall season, with department store sales in October well ahead of last year as well as the preceding month.

Accompanying the rising state of business conditions have been higher tax receipts and an increased likelihood of a balanced Federal budget for this fiscal year. At present levels of activity, a small surplus might even accumulate, the very prospect of which may give rise to moves for tax reductions.

### Employment Up

The employment picture improved markedly in October. The number of people gainfully employed rose by 400,000 to a new high for the month of 65.2 million. At the same time, unemployment remained at the preceding month's figure of 2.1 million. A year earlier unemployment totaled 2.7 million.

Increased activity in trade and manufacturing accounted for most of the rise in employment, more than offsetting lower employment in service industries, construction, utilities, and transportation. The upturn in manufacturing employment, though slight, was a counter-seasonal one, brought about by sharply increased business of electrical and nonelectrical machinery manufacturers.

Factory workers also earned more in October than at any other time in the past. Average earnings of factory workers amounted to \$78.69 per week as compared with \$77.90 per week in September and with \$72.22 in October of last year.

### Construction Down Seasonally

Outlays for new construction in October declined seasonally by 4 percent from the September figure to \$3.9 billion. However, this total still represented an all-time high for the month, 11 percent above the previous high registered last October.

A lower level of home-building activity accounted for much of the seasonal decline in October. Public building was also down somewhat. On the other hand, private commercial and factory construction were notable for their continued strength, breaking all previous monthly records.

If construction keeps on for the rest of this year as it has in the first 10 months, total new building expenditures in 1955 should reach an all-time high of \$42 billion. This would exceed last year's record total of \$37.6 billion by more than 10 percent. Government estimates indicate that construction outlays in 1956 may rise an additional 5 percent to a new peak of \$44 billion.

### Inventories Mount

Further accumulation of inventories was reported in September. Businessmen added about \$700 million of goods during the month, a more-than-seasonal increase, raising the total book value of their holdings at the beginning of October to \$79.6 billion. Inventories at the same time last year amounted to \$76.9 billion.

The increase in inventories during September was mainly concentrated among manufacturers and wholesalers. At the retail level there was little change as reductions in stocks of auto dealers offset further inventory accumulation by apparel and general merchandise stores.

So far this year the rise in inventories has been accompanied by an even greater rise in sales. As a result, inventories in relation to sales are below their level of last year. Thus, the inventory-sales ratio at the beginning of October for manufacturers was 1.59 as compared with 1.80 last year, and for retailers 1.47 as compared with 1.58 last year.

### Farm Income Continues Down

In the third quarter of this year farmers generally netted about 5 percent less than in the second quarter and 10 percent less than in the third quarter of 1954. At \$10.3 billion at an annual rate, farm income in the third quarter of this year was appreciably lower than the \$12.3 billion earned by farmers in all of 1954.

The decline, which has been underway during most of this year, was due primarily to lower prices received by farmers for their products not offset by a commensurate drop in production costs. A 20-percent drop in hog prices from 1954 levels was the biggest single factor in the decline, bringing about substantially reduced receipts from livestock marketing. The volume of farm marketings was approximately the same in the third quarter of this year as in the second quarter, with the exception of seasonal changes.

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## Relying on Trends

A new indoor sport has been gaining popularity. It consists of projecting statistical trends into the distant future and using them to talk glowingly of the magnificent prospects for the country or for its industries.

This pastime was given respectability by government agencies or bodies like the Paley Commission, which compiled estimates of materials requirements in 1975 with a specific objective in mind. Its possibilities have been assiduously explored by others, many of whom have taken it up without similar justification. Recently, a number of executives of important corporations have made use of trends in statements about investment programs needed to meet the demands of "ever-growing markets."

Statisticians experienced in trend-fitting usually recognize that their trend lines are a partial abstraction, with no more validity than the assumptions embodied in them. This fact has been lost sight of, however, in the use to which they are now being put. They have been incorporated, without necessary qualifications, in the articles of faith of the cult of "new era" optimism.

### Variations From a Stable Trend

The first thing that should be understood about a trend is that it tells nothing about the short-term cyclical or irregular movements that run counter to it. These short-term movements, departing from the trend and perhaps returning to it after a while, are essentially independent of anything that goes into the makeup of the trend. The trend must, in fact, abstract from the influences producing such movements. It can, therefore, tell practically nothing about what will happen next to such cyclical variables as production, employment, and income.

In the major swings of the business cycle, the declines are usually sharp, cutting directly across the trend. The recoveries tend to be drawn out over a greater interval, running more nearly parallel to the trend and eventually rising above it. To speak of these recovery movements as trends, such as "postwar trends," is an abuse of statistical terminology. To project those based on the movements of a single cycle into the indefinite future involves an implicit error, because the cyclical components cannot be treated in this way. In other words, the rates of growth temporarily attained during cyclical recoveries are usually much greater than the long-term rates of growth com-

puted over a number of cycles, and there is no sound basis for projecting these exaggerated rates of increase. Yet this is precisely what is being done today—in arriving, for example, at the conclusion that auto sales in 1955 moved up to a "new plateau" in auto demand.

Some demographic and economic variables are "natural" for trend projection, because they are relatively stable and may continue to advance even during a depression. Population is such a variable, and many of the others—such as dwelling units and household use of electric power—are related to population. However, even these stable series show considerable variation in rates of growth during limited periods of time. In the early 1920's, population was growing at a rate of almost 2 percent a year; by the mid-1930's, it had dropped back to less than 1 percent. In the early 1950's, it had again risen close to the 2 percent of predepression years.

Important economic effects of such variables derive not from the absolute level they have attained but from the changes in their rates of growth. Growth makes a distinct contribution to the total of needs demanding satisfaction, and when growth slows, the need is correspondingly reduced. Unfavorable effects are felt long before the uptrend is halted; they begin when the first deceleration occurs.

At the present time, many variables have attained very high positions relative to long-term trends. This means, in most cases, that a certain amount of future growth has been anticipated, not that the trend is really steeper than the long view indicates. In all likelihood, the recent high rates of advance will have to be compensated by slower advances in the future. If the trend lines have any significance at all, therefore, it lies in this indication that the variables which have risen above the trend will have to drop back to it.

### Cycles Modify "Trends"

In actual experience, trend, cycle, and irregularity are all interwoven. The forces making for continuity are not independent of those making for the swings and reversals of the cycle. What seems like a sound trend, established by a decade of experience, may have a substantial cyclical component. When the cycle turns, the trend previously observed proves to be unreliable.

The shift in population growth from the twenties to the thirties is illustrative, and there is every reason to believe that a similar shift is about to take place. The birth rate has been stimulated to an abnormal degree by military manpower policies and by the boom. The subnormal rates of family formation of the 1930's created a situation in which these conditions could have maximum effect. Since the war, however, the deficiencies of the past have been made up and some borrowing from the future has already taken place. The average age at marriage and the average age at birth of first child have been reduced sharply. The gains accruing as these averages were brought down can no longer be expected. Professor Notestein of Princeton has shown that the changes in age distribution and in marital status which have occurred in the last decade have progressed to the point where a decline in the birth rate in the next few years is almost a certainty. Even if prosperity is maintained, the rate of population increase may be cut in half by 1960.

Marriage and birth rates are themselves affected adversely in periods of depression. Loss of job and income not only eliminates marriage prospects for many young

(Continued on page 6)



### FURNITURE PRODUCTION

Furniture making in America commenced around 1640 and for nearly 200 years continued as the work of individual cabinetmakers who operated their own small shops with no more than a bench and a few hand tools. By the end of the seventeenth century there was scarcely a village of any size that did not have a local cabinetmaker.

The use of imported woods caused the manufacture of high-grade furniture to cling to the eastern seaboard, with the result that by 1840 New York and Boston had become the principal furniture centers of the United States. However, as the West developed, domestic woods began to be utilized to a greater extent. Well-trained cabinetmakers and other experienced craftsmen migrated to the Midwest, settled, and set up shop.

As time progressed, much of the trade was taken away from the East coast. The character of the industry changed as the individual cabinetmaker gave way to the engine-powered shops, which in turn were replaced by the assembly line and mass-production techniques.

#### The Furniture Industry

The United States furniture industry produces furniture of many types and designs. Although household furniture is by far the largest category, the industry makes special types for office, store, restaurant, and hospital use as well as cabinets for radio, television, and phonograph sets. In addition, the making of mattresses and bedsprings is also included within its scope of production.

Manufacturers' shipments of household furniture and bedding products in 1953 were valued at \$2,466 million as compared with \$1,815 million in 1948. Of the 1953 total, wood household furniture constituted approximately 44 percent; upholstered furniture, 27 percent, metal furniture, 14 percent; bedding products, 14 percent; and miscellaneous, 1 percent.

It is interesting to note that while the total amount of furniture produced is increasing, the number of furniture plants in the nation has been declining. In 1953 there were approximately 4,000 plants as compared with 5,000 in 1948. However, the number of plants shipping over one million dollars of goods a year increased from 453 to 638 over the five-year period.

#### Growth in Illinois

Illinois is currently rated as the third largest state in the nation in total output, North Carolina and New York being the only larger producers. It is first in the production of metal furniture, third in upholstered goods, and fifth in wood household furniture. It has 225 furniture manufacturers, many of which are rated as the largest of their kind in the world. In addition, it is the headquarters of the principal trade associations of the industry.

The early development of the industry in Illinois was closely connected with the westward movement of population. It was not until 1834, when a small factory began

operations in Chicago, that Illinois could be called a furniture-producing state.

Rockford's furniture industry commenced during the late 1830's, but it was not until 1872 that the first important factory was built. In 1882 the invention of a combination bookcase and writing desk stimulated Rockford's rise to fame, and for over 20 years this was its main product. By 1885 Rockford's reputation as a furniture center had spread over the nation and it was known as "The Furniture City." Its peak was reached in 1926 when 35 factories, employing 4,000 workers, operated at full-scale production. During the depression, however, nearly every furniture factory collapsed financially and many never recovered. As a result, there are today only 19 firms, employing 2,000 workers.

Chicago commenced its bid for prominence at the turn of the century. In 1899 it had 119 factories producing furniture valued at \$12.5 million and by 1919 boasted 222 firms with an output in excess of \$50 million. Although the number of firms has remained fairly constant in recent years, production has increased greatly. In 1954 the total value of all furniture produced was \$280 million—second only to New York City.

#### Marketing Center of the World

The most important factor contributing to Chicago's development has been its position as a marketing center. The present-day furniture market was established in 1930 when the American Furniture Mart and the Merchandise Mart formed a combination that rapidly grew in size and importance. Today, Chicago is the furniture center of the world, with approximately 40 percent of all orders for furniture placed at its markets.

Many of the nation's leading furniture and bedding manufacturers are situated in and around Chicago. Kroehler, the world's largest furniture maker, has its headquarters plant at Naperville and another at Kankakee; the International, Pullman Couch, and Futorian companies are among the largest of their kind; Kroll Brothers and Storkline Furniture, largest manufacturers of baby furniture, are located there; and three of the nation's major producers of metal furniture—Douglas Furniture, Royal Metal Manufacturing, and the Howell Company—are in the Chicago area. In all, some 500 furniture manufacturers are located in the six-county Chicago industrial area. Other major plants are located at Galesburg, Mattoon, Metropolis, Peoria, and Rockford.

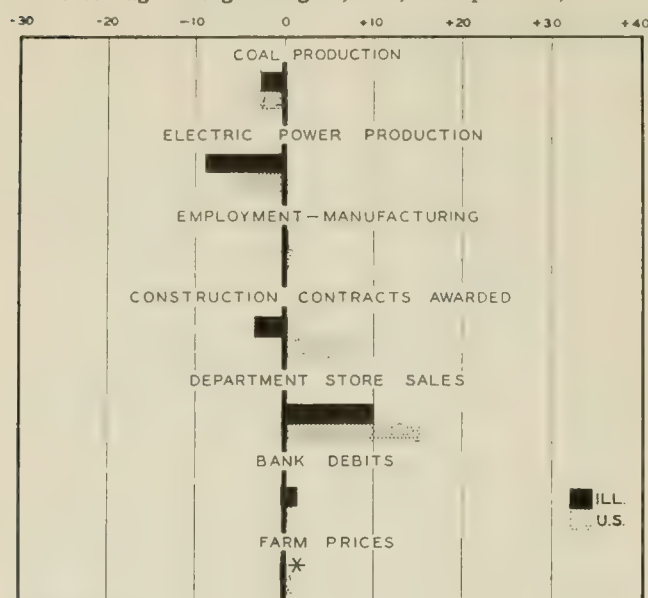
Illinois, as a furniture-producing state, has continued to increase its output during the past few years but at a decreasing rate. There appears to be a definite trend in the industry toward the establishment of factories in the southern states. Labor is much tighter in the North and there is difficulty in competing with other higher-paying industries. Nevertheless, Illinois may be expected to retain a prominent position in the furniture industry, and Chicago's international markets will be one of its principal assets.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes August, 1955, to September, 1955



\* No change.

## ILLINOIS BUSINESS INDEXES

Item	September 1955 (1947-49 = 100)	Percentage Change from	
		August 1955	Sept. 1954
Electric power <sup>1</sup> .....	203.7	-8.8	+16.5
Coal production <sup>2</sup> .....	74.2	-2.8	+ 0.4
Employment—manufacturing <sup>3</sup> ...	106.1	+0.1	+ 4.5
Weekly earnings—manufacturing <sup>3</sup> ...	144.0 <sup>a</sup>	+1.6	+ 8.6
Dept. store sales in Chicago <sup>4</sup> ....	112.0 <sup>b</sup>	+3.7	+ 3.7
Consumer prices in Chicago <sup>5</sup> ....	118.9	+0.3	+ 1.3
Construction contracts awarded <sup>6</sup> ...	318.4	-3.4	+51.6
Bank debits <sup>7</sup> .....	158.2	+1.4	+12.2
Farm prices <sup>8</sup> .....	77.0 <sup>c</sup>	0.0	-11.5
Life insurance sales (ordinary) <sup>9</sup> ...	179.0	-9.9	+12.0
Petroleum production <sup>10</sup> .....	131.5	-2.4	+31.6

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.  
<sup>a</sup> August data; comparisons relate to July, 1955, and August, 1954.  
<sup>b</sup> Seasonally adjusted. <sup>c</sup> Revised series.

## UNITED STATES MONTHLY INDEXES

Item	September 1955	Percentage Change from	
		August 1955	Sept. 1954
	Annual rate in billion \$		
Personal income <sup>1</sup> . . . . .	307.5 <sup>a</sup>	+ 0.7	+ 6.
Manufacturing <sup>1</sup> . . . . .			
Sales . . . . .	327.6 <sup>a</sup>	+ 0.4	+18.7
Inventories . . . . .	44.6 <sup>a, b</sup>	+ 0.7	+ 4.0
New construction activity <sup>1</sup> . . . . .			
Private residential . . . . .	17.6	- 1.1	+10.6
Private nonresidential . . . . .	15.5	+ 1.1	+13.9
Total public . . . . .	14.9	+ 1.6	+ 2.4
Foreign trade <sup>1</sup> . . . . .			
Merchandise exports . . . . .	14.8 <sup>c</sup>	- 2.8	+ 6.6
Merchandise imports . . . . .	11.5 <sup>c</sup>	+ 8.3	+16.3
Excess of exports . . . . .	3.3 <sup>c</sup>	-28.6	-17.5
Consumer credit outstanding <sup>2</sup> . . . . .			
Total credit . . . . .	34.3 <sup>b</sup>	+ 2.0	+18.8
Installment credit . . . . .	26.7 <sup>b</sup>	+ 2.1	+21.7
Business loans <sup>2</sup> . . . . .	24.7 <sup>b</sup>	+ 2.1	+17.4
Cash farm income <sup>3</sup> . . . . .	36.5	+25.5	- 4.9
	Indexes (1947-49 =100)		
Industrial production <sup>2</sup> . . . . .			
Combined index . . . . .	141 <sup>a</sup>	+ 0.7	+13.7
Durable manufactures . . . . .	160 <sup>a</sup>	+ 1.3	+16.8
Nondurable manufactures . . . . .	125 <sup>a</sup>	0.0	+ 8.7
Minerals . . . . .	121 <sup>a</sup>	+ 0.8	+12.0
Manufacturing employment <sup>4</sup> . . . . .			
Production workers . . . . .	107 <sup>a</sup>	+ 0.1	+ 6.7
Factory worker earnings <sup>4</sup> . . . . .			
Average hours worked . . . . .	103	+ 1.0	+ 3.3
Average hourly earnings . . . . .	143	+ 1.1	+ 5.0
Average weekly earnings . . . . .	147	+ 2.1	+ 8.4
Construction contracts awarded <sup>5</sup> . . . . .	266	+ 7.4	+12.1
Department store sales <sup>2</sup> . . . . .	119 <sup>a</sup>	0.0	+ 7.2
Consumers' price index <sup>4</sup> . . . . .	115	+ 0.3	+ 0.2
Wholesale prices <sup>4</sup> . . . . .			
All commodities . . . . .	112	+ 0.6	+ 1.5
Farm products . . . . .	89	+ 1.4	- 4.6
Foods . . . . .	101	- 0.5	- 3.9
Other . . . . .	118	+ 0.8	+ 3.5
Farm prices <sup>3</sup> . . . . .			
Received by farmers . . . . .	87	+ 1.2	- 4.4
Paid by farmers . . . . .	111	- 0.9	- 0.9
Parity ratio . . . . .	85 <sup>d</sup>	+ 1.2	- 3.4

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for August, 1955; comparisons relate to July, 1955, and August, 1954. <sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1955					1954
	Oct. 29	Oct. 22	Oct. 15	Oct. 8	Oct. 1	Oct. 30
Production:						
Bituminous coal (daily avg.).....thous. of short tons..	1,665	1,627	1,633	1,639	1,603	1,534
Electric power by utilities.....mil. of kw-hr.....	10,659	10,644	10,599	10,639	10,627	9,152
Motor vehicles (Wards).....number in thous.....	182	164	126	96	139	87
Petroleum (daily avg.).....thous. bbl.....	6,750	6,753	6,714	6,690	6,661	6,153
Steel.....1947-49 = 100.....	140	138	135	135	136	103
Freight carloadings.....thous. of cars.....	835	834	827	807	820	736
Department store sales.....1947-49 = 100.....	126	133	128	125	126	117
Commodity prices, wholesale:						
All commodities.....1947-49 = 100.....	111.1	111.2	111.2	111.4	111.4	109.7 <sup>a</sup>
Other than farm products and foods.....1947-49 = 100.....	118.7	118.6	118.7	118.6	118.0	114.5 <sup>a</sup>
22 commodities.....1947-49 = 100.....	88.5	89.5	89.5	89.7	90.4	90.4
Finance:						
Business loans.....mil. of dol.....	25,124	25,082	25,114	25,010	24,940	21,043
Failures, industrial and commercial.....number.....	230	239	203	207	186	223

Source: Survey of Current Business, Weekly Supplements.

<sup>a</sup> Monthly index for October, 1954.



# RECENT ECONOMIC CHANGES

## Housing Starts Decline

The housing boom has given signs of tapering off in recent months. New nonfarm starts dropped 15 percent, considerably more than seasonally, to 115,000 in July, rose again in August to 123,000, but in September were down, again more than seasonally, to 113,000 units (see chart).

Home building received an important stimulus last year from the Housing Act of 1954. Between January and December seasonally adjusted starts rose 40 percent to an annual rate of 1.5 million at the end of the year. Subsequently the trend of seasonally adjusted starts has been downward. By September the annual rate had dropped to 1.2 million new units and was slightly below the year-ago level. The decline in August and September has been attributed to tightened mortgage credit terms, but the importance of this factor cannot be fully evaluated until credit is again eased.

## Saving Negative

Individuals added more to their debts than to their financial assets in the second quarter of this year, according to estimates by the Securities and Exchange Commission. Saving in the form of currency and bank deposits rose by \$200 million, purchases of certificates in savings and loan associations by \$1.4 billion, private and government insurance by \$2.5 billion, and security holdings by \$1 billion. The \$5.1-billion growth in these types of liquid saving was more than offset, however, by an increase of \$3.3 billion in mortgage indebtedness and \$2.2 billion in other loans, largely installment loans for consumer durable goods. On balance, equity in liquid assets dropped by a half billion dollars.

## Employment Up

Employment moved up by 400,000 to 65.2 million in October, a record high for the month. This was 3 million above October, 1954. The gain occurred mainly in the

nonfarm sector of the economy as hiring by trade firms preparing for the fall pickup in sales and by state and local governments more than offset declines in the construction, transportation, and utility industries. Contrary to the usual seasonal movement, unemployment dropped only slightly. Census data in thousands of workers are as follows:

	Oct. 1955	Sept. 1955	Oct. 1954
Civilian labor force.....	67,292	66,882	64,882
Employment.....	65,161	64,733	62,141
Agricultural.....	7,905	7,875	7,239
Nonagricultural.....	57,256	56,858	54,902
Unemployment.....	2,131	2,149	2,741

## Foreign Grants and Credits

The United States extended an additional \$4.5 billion in net grants and credits to foreign nations during fiscal year 1955. The total was down by three-quarters of a billion dollars from the previous fiscal year. Cutbacks in military assistance of a billion dollars more than offset higher grants and credits for nonmilitary foreign aid. The rise of about \$100 million in nonmilitary assistance marked the end of a five-year downturn in such aid. It resulted mainly from increased transfers to France for aid to Indochina and directly to Indochina itself. Korea also received more nonmilitary aid in fiscal year 1955 than in 1954, but grants and credits to other countries, with few exceptions, were lower.

Since World War II American net grants and credits have totaled more than \$51 billion. About the same amount of aid was extended in the second half of the postwar decade as in the first five years. However, all but 5 percent of pre-Korean aid was in the form of economic and technical help, whereas in the fiscal years 1951-55, military aid has been more important — accounting for 53 percent of total net grants and credits — as a result of the Indochina and Korean affairs.

## Farm Prices Continue Decline

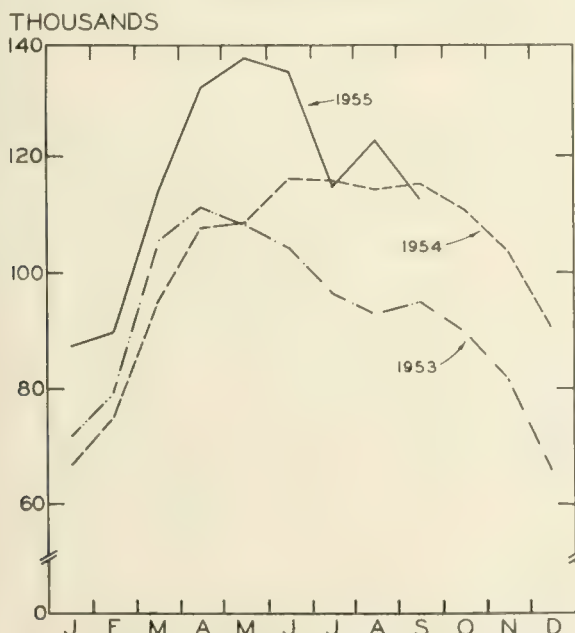
Prices received by farmers continued to decline in October. Lower prices for hogs, cotton, corn, apples, and cattle were only partly offset by higher prices received for milk, tobacco, wheat, tomatoes, and strawberries. As a result the index of prices received dropped 2 percent from the September level to 230 (1910-14 = 100). The index is currently about 15 percent below the 1951 average when farm prices were at a postwar peak.

Prices paid for farm production items were unchanged from September, but higher prices for consumer goods and increased wage rates pushed the index of prices paid by farmers up slightly during October. This rise combined with the drop in farm prices to depress the parity ratio by two more points in October to the lowest recorded in fifteen years, 82. The parity ratio in October was 6 percent below October, 1954.

## Second Quarter Profits

Sales and profits of manufacturing concerns reached a record high in the second quarter of this year, according to the Securities and Exchange Commission. Sales totaled \$70 billion, 7 percent above the first quarter figure and 12 percent above the second quarter of 1954. Profits before taxes rose to \$7.4 billion, almost a billion dollars higher than the first quarter and \$1.8 billion higher than

HOUSING STARTS



Source: Bureau of Labor Statistics.

a year ago. After taxes, profits amounted to \$3.9 billion, which compared with \$3.3 billion in the previous quarter and \$2.9 billion in the second quarter of 1954.

Profits after taxes in the first half of 1955 totaled \$7.2 billion, 31 percent above the first half of 1954. All industry groups shared in the advance with gains ranging from 1 percent for electrical machinery to 246 percent for the apparel and textile group. In addition to textiles, increases of more than 50 percent were scored by the automotive, lumber and wood products, furniture and fixtures, petroleum and coal products, leather, and primary metals industries.

## Production Advance

Industrial production continued to rise into new high ground in September, despite a slowing in the rate of advance in the third quarter attributable to reduced output of nondurables. September output, at 141 percent of the 1947-49 average, was up 15 percent from last year's low and was 3 percent above the 1953 peak. Production of nondurables, after reaching a high of 128 in June, slipped back to 125 by September, but no slowdown in seasonally adjusted output of durables was apparent.

Industrial output in the first three quarters led the same period of 1954 by 11 percent although it was only slightly higher than the first three quarters of 1953. New records in total output center predominantly on the super-important automobile industry. Auto and truck production was 40 percent higher in the first three quarters of 1955 than a year ago and was 20 percent higher than in the corresponding 1953 period. As illustrated by the accompanying chart, most major lines of durable goods production, aside from autos, though up sharply from 1954, were not significantly higher than in the first three

quarters of 1953. In production of nondurables, much the same situation prevails except for the chemical and petroleum industries where output bettered 1953 by 9 percent. Of the industries illustrated, only electric power and paper and printing continued to grow through 1954, so that gains in these lines between 1953 and 1955 exceeded the one-year change from the first three quarters of last year to this.

## Relying on Trends

(Continued from page 2)

men, but is a potent argument against increased responsibility in established families. How low the rate of population increase might fall under depressed conditions is difficult to predict. But there can be no doubt that adverse shifts in demographic factors will contribute to the unfavorable developments of the next depression.

Other so-called trends are derivative in character and are even less to be relied upon for sustaining the economy in a decline. The "trend toward suburban living" is a case in point. There has no doubt been a strong movement to the suburbs. It was partly made possible by the general availability of private cars and has in turn stimulated car sales. It appears to have been accelerated somewhat by fear of the atomic bomb and by the dispersion of industry. Nevertheless, the whole movement is essentially variable, an aspect of the housing cycle. When homes are being built, land has to be found on which to build them. It is not available in the cities, and perhaps not in established suburbs; so new suburbs have to be created. Hence, there is bound to be a movement to the suburbs during any building boom. How much the other special influences noted above have added to it in recent years is another item it is impossible to put in figures.

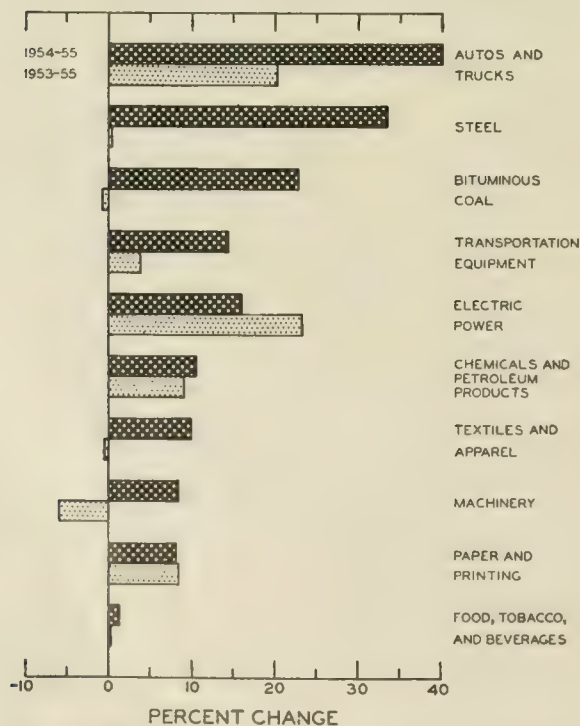
A common mistake is to think that this movement can guarantee high activity indefinitely. The fact is that the accumulation of houses, cars, and other durables tends to be self-limiting. In this area, there are no "ceilings unlimited," no appetites unlimited, and no possibility of demand building upon itself ad infinitum. Since these durable goods are not quickly used up, they inevitably accumulate to the point where needs are satisfied. We are overbuilding practically all of them today, and there is no alternative to cutting back rates of production in the near future.

The reasonable attitude with which to regard the apparent "trends" of the postwar boom is one of skepticism. Among the most uniform are the "trends" in electric power output and capacity. What these stable "trends" conceal is an overbuilding of generating capacity in the last two years that is even now demanding early correction. When the advance in power use slows, capacity building has to be curtailed still more rapidly, allowing for a moderate lag. Such a shift is already in evidence in the competitive difficulties recently encountered by the equipment producers.

Although the curve-fitters may explicitly state the assumptions underlying their trends, their projections are commonly picked up as forecasts for the immediate as well as the more distant future. Perhaps activity will conform to properly constructed trends some ten or twenty years hence. But in the really important period for present policy — the years just ahead — they offer no assurance whatsoever that business conditions will remain good. Any contribution they have been or are making to the enthusiasm of the boom is mistaken.

VLB

**CHANGES IN PRODUCTION, SELECTED INDUSTRIES**  
(Percent changes, three quarters 1953-55, 1954-55)



Sources: Federal Reserve Board, American Iron and Steel Institute, Edison Electric Institute, Dept. of the Interior, and Ward's Automotive Reports.



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Business Operating Studies

Comparative studies containing material on sales, expenses, and profits are being made for business groups in many fields. One of these is a study of men's wear stores, compiled by the National Association of Retail Clothiers and Furnishers, Munsey Building, Washington, D. C., and by *Men's Wear Magazine*. In the *1954 Survey of Operating Experience* extensive breakdowns of operating percentages are given for geographical groups, special store groups, and size groups. Inventory, merchandising, and productivity data are also included.

The American Institute of Laundering, Joliet, Illinois, makes a similar study of costs for that industry. Cost ratios are given separately for all plants and for profitable plants in *Operating Cost Percentages 1954*. Because of the wide differentials in geographical experience, data are compiled for individual regions and states as well as for the nation.

Many other studies of operating ratios are made. Examples include those on commercial banks made by the Federal Reserve Banks and those on hotels and clubs made by Horwath and Horwath, a national accounting firm with offices at 100 West Monroe Street, Chicago. The National Automobile Dealers Association, 1800 H Street, N.W., Washington 6, D. C., has recently compiled *Operating Averages for the Automobile Retailing Industry, First Six Months 1955*. Summary statements of 1,621 individually owned drug stores are available from Eli Lilly and Company, Indianapolis 6, Indiana.

### Winter Weather

A water hydrant which will not freeze even in the coldest weather has been developed by Crane Company, 836 South Michigan Avenue, Chicago. The de-icing is accomplished by means of an elastic tube which contracts after each use. The thin ribbon of ice which may form in the tube is easily melted and forced out through the spout when the pressure of water for the next use flows into the tube. The hydrant is expected to be especially useful on farms, in railroad yards, and in industrial plants.

The Can Arm Corporation, Box 30, Chazy, New York, has recently marketed a radiant glass electric heater with an automatic adjustable thermostat. It can heat an insulated room 10 by 12 feet to any temperature in the range of 60 to 90 degrees Fahrenheit.

### Gifts Galore

With the Christmas season fast approaching, thoughts are turning more and more to new gift items. This year even a new gift plan has been developed, involving gift certificates which are used to buy directly from a manufacturer rather than from the dealer's stock. The gift is then shipped directly from the factory, saving time, money, and shelf space for the retailer. One company using such a plan is RCA Victor; the company uses this method to sell some of its phonograph records and even throws in an extra gift record with larger orders.

Extra gifts also are being used by the Tappan Stove Company in their Christmas promotion. Pheasants and Revere Ware will be given away with ranges sold during

the holidays, and aprons will be given, for a small charge, to all women coming in for a Tappan demonstration.

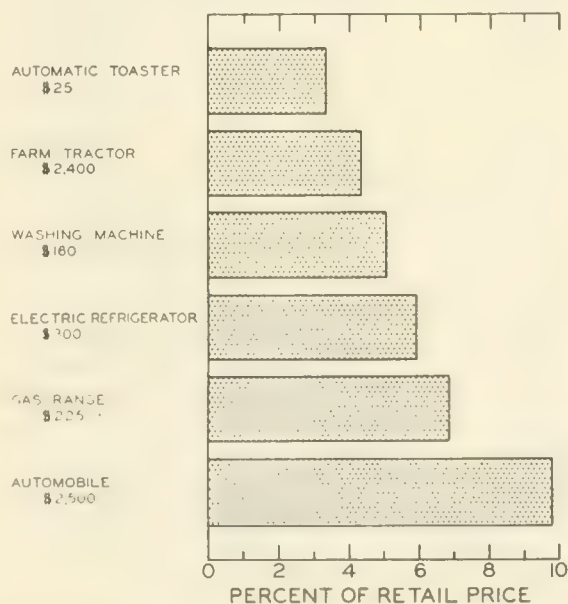
Special gift packages of shaving cream are being marketed by Frederick Hornick, 309 Fifth Avenue, New York 16. These are "one-shot" tubes, containing only one-fourth of an ounce; they are designed for mail enclosures, convention gifts, and store gifts, and are also handy for use in hotels and trains. The tubes can be purchased with or without advertising.

### Steel and the Consumer

Even though steel is basically an industrial commodity, its price is of concern to every consumer because of its importance in many consumer durables. The cost of steel represents almost 10 percent of the retail price of a standard four-door automobile and a substantial portion of the end price of many other items, as is shown in the accompanying chart.

Although the prices of iron and steel have risen, on the average, about 45 percent since the late 1940's, prices of most consumer goods containing steel have risen nowhere near this much—fortunately for the consumer. Household furnishings, which include appliances, have advanced only 4 percent in the same period, and the prices of appliances themselves have fallen off somewhat. This is because, for most items, the costs of fabrication and distribution make up a far larger portion of the retail price than does the cost of the material used; changes in the retail price, therefore, vary more with changes in these costs than with changes in the price of steel. A decline in the retailers' markup, resulting from substantial supplies which have manifested themselves in widespread discount selling, has served to keep the final cost to the consumer down.

STEEL COST IN SELECTED RETAIL PRODUCTS



Source: American Iron and Steel Institute, *Charting Steel's Progress*, p. 67.

# PERSONAL INCOME IN ILLINOIS

PATRICIA PODD WEBBER, Research Assistant

"As Maine goes . . ." may continue to rank as a political forecast, but as Illinois goes so goes the nation economically. In no small measure this phenomenon results from the fact that Illinois represents a fair cross section of the nation in its combination of industrial and agricultural activity. This was evidenced again in 1954 as total personal income rose 1 percent and per capita income declined 1 percent for both the State and the nation.

## Growth in Aggregate Income

In general the pattern of income growth has been parallel for Illinois, the Midwest, and the country as a whole. All three showed a decline of about half between 1929 and 1933 and a sixfold rise since then. The primary differences between Illinois and both the region and the nation are that the depression of the 1930's brought a slightly greater decline to the State and the war years failed to bring as great a rise.

In recent years income in Illinois seems to have stabilized at just under 7 percent of the national total, although in 1929 it was as high as 8.5 percent. The small and gradual decline of its position is largely caused by the relative maturity of the Midwest as compared with the faster growth of the more recently developed western and southern states.

The growth of income payments since 1929 is pictured in Chart 1 for the five leading states. The spectacular advance of California from the position of fourth as recently as 1940 to the position of second since 1942 highlights the rapidity of growth of newer sections as compared with the more established regions. New York, on the other hand, is typical of the smaller growth rate common to the older sections.

In 1954 Illinois regained its position as third largest income producer in the United States, a position which,

as shown in the chart, it has held on and off throughout the period. Of the five leading states, Illinois ranks in the middle in regard to growth rate also, advancing more than New York and Pennsylvania but less than Ohio and California, whose industrial expansion is more recent.

Compared with the other states in the Central region, Illinois has grown at the slowest rate since 1929 even though it retains its place as the largest in total personal income. In the years since 1950, however, Illinois has grown faster than the agricultural states of Iowa, Minnesota, and Wisconsin, where declining farm income has depressed the totals somewhat.

## Income by Type of Payment

By far the largest portion of personal income finds its way into the hands of consumers through disbursements of wages and salaries. Property income and proprietors' income each account for almost half of the rest.

Since 1929 the proportion of income earned in the form of wages and salaries has been slowly growing, although it was kept low during the war years as a result of wage freezes. Government transfer payments and labor income such as employer contributions to pension and welfare funds have expanded even faster as social philosophy has changed, so that they now account for more than four times the proportion they did in 1929. Offsetting these gains has been the declining importance of property income, that is, rents, dividends, and interest.

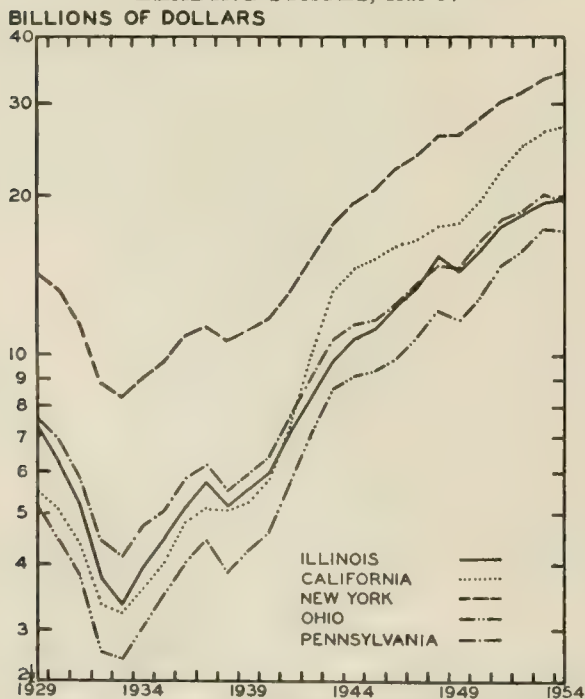
The distribution of income payments by type is very similar for Illinois, the Central States, and the United States. Wide differences exist between Illinois and other states, however, as shown in Table 1.

TABLE 1. DISTRIBUTION OF INCOME BY TYPE OF PAYMENT, 1954

State	Wages and salaries	Proprietors	Property	Other
Michigan . . . . .	74.0%	9.7%	10.2%	6.1%
Illinois . . . . .	70.3	12.3	11.9	5.5
New York . . . . .	69.7	8.9	15.4	6.0
Minnesota . . . . .	62.3	20.0	11.7	6.0
Nebraska . . . . .	54.3	29.0	12.0	4.7
Iowa . . . . .	49.2	33.6	11.5	5.7
United States . . . . .	68.0	13.3	12.4	6.3

Source: Survey of Current Business, September, 1955.

CHART 1. INCOME PAYMENTS FOR LEADING STATES, 1929-54



Source: Survey of Current Business, September, 1955.

At the opposite end of the pole from Illinois, but its close neighbor geographically, is Iowa with less than half of its income received in the form of wages and salaries and more than a third of it received through proprietorship. In large measure this is the result of the differing importance of agriculture in the two states.

In Michigan, on the other hand, a significantly greater segment of income is generated through manufacturing and other nonfarm sources, causing a larger portion of payments to be made in the form of wages and salaries than is true generally. Most of the difference is balanced by lower income from proprietorship, although property income is also less important than in Illinois.

Although the sharp extremes evident in comparisons of wages and salaries or proprietorship income are not present, significant differences do exist in regard to property income. In New York, for example, the proportion rises to more than 15 percent, probably because of the



importance of New York City as the nation's financial center. In contrast, property income in Mississippi contributes only 8.4 percent of that state's income.

## Payments by Industry

Differences in the concentration of industry, as indicated in the comparison of Illinois and Iowa, is probably behind much of the varying payment distribution. The distribution of income by type of industry for the Midwestern states is shown in Table 2.

**TABLE 2. DISTRIBUTION OF INCOME BY INDUSTRY, 1954**

State	Manufacturing	Farm	Trade and service	Government	Other
Michigan	38.3%	2.1%	24.4%	12.6%	22.6%
Ohio	33.5	3.5	24.6	12.6	25.8
Indiana.....	32.6	7.9	23.6	12.6	23.3
Wisconsin.....	30.0	7.2	25.7	13.2	23.9
Illinois	27.5	4.5	28.0	12.6	27.4
Missouri	21.0	7.4	29.5	14.6	27.5
Minnesota	17.0	11.4	29.1	14.7	27.8
Iowa...	14.3	25.5	25.2	13.8	21.2
Central States...	29.4	6.2	26.0	13.0	25.4
United States....	23.1	5.3	27.5	16.9	27.2

Source: *Survey of Current Business*, September, 1955.

The major differences between the states are in the proportions of income received from manufacturing and from agriculture, varying between the extremes of Iowa and Michigan. Illinois presents a middle-of-the-road picture which brings it close to the Central States' total.

Differences in the concentration of manufacturing and farming are also substantial among regions. Whereas the Central and the New England regions receive almost 30 percent of their income from manufacturing, states in the Northwest and Southwest gain only about 10 percent of their income from this source. On the other hand, less than 2 percent of the income in the Northeast comes from agriculture, whereas in the South and the Great Plains region more than one-tenth is acquired through farming.

Although the proportion of income received from governments is quite stable throughout the Midwestern states, it is significantly lower than that for the nation as a whole and also lower than that of the other major geographical sections of the country. Probably this results from the distribution of military installations, which are relatively more important elsewhere. In Virginia, for example, more than 30 percent of the personal income is received from governments.

Trade and service income is above average in Illinois because of the importance of Chicago in such activities. Only two states in the district, Minnesota and Missouri, outrank it, and they are not a great deal higher. Among the large states Illinois holds the middle position; it is lower than New York and California with 31 and 30 percent respectively but higher than Ohio and Pennsylvania with 25 percent each.

In two other branches of activity not shown in the table, Illinois is sufficiently important to warrant comment. The proportion of income from finance, insurance, and real estate amounts to 3.3 percent in the State, compared with only 2.5 percent in the Midwest and 2.9 percent in the nation. Probably this is because of the financial importance of Chicago. New York, including a much larger financial center, boasts 4.8 percent of its income from this source. Transportation income is also

relatively important in Illinois because of the heavy flow of traffic across the State, particularly through Chicago, the giant rail and air center of the country. It accounts for 4.7 percent of the total as compared with 4.0 percent for the region and 4.1 percent for the United States.

## Per Capita Income

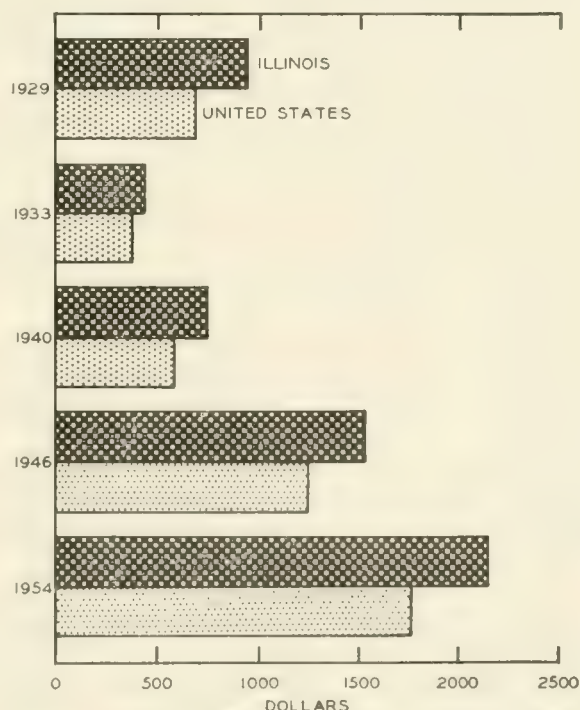
The top five states in personal income are also the top five in population. Although, as a result, their position in regard to per capita income is substantially changed, with top ranks going to the smaller states of Nevada, Delaware, and Connecticut, spots six through eight are held by California, New York, and Illinois respectively.

Illinois per capita income in 1954 was \$2,155 which, as may be seen in Chart 2, is well above the level for the nation as a whole. Average income in the State has more than doubled since 1929 and it is almost three times as great as in 1940. Part of this gain, of course, represents the general inflation of prices and wages as a result of World War II. Significantly, the chart shows that the margin of difference between Illinois and the United States is wider in times of prosperity than in depressed years, probably because of the greater concentration of "heavy" industrial activity in the State.

Although Illinois sports the largest per capita personal income in the Midwestern states, it has shown the slowest income growth rate over the past twenty-five years. Its rate of growth has been considerably smaller than that for the nation as a whole, moving up 125 percent as compared with 200 percent for Indiana and over 150 percent for the other states.

Since 1950, however, per capita income in Illinois has risen at about the same rate (18 percent per year) as in the region and the nation, and slightly faster than the more agricultural states of Iowa and Wisconsin. The diversity of activity in the State indicates that there is no reason to expect Illinois and the nation to go separate economic ways.

**CHART 2. PER CAPITA INCOME PAYMENTS, SELECTED YEARS**



Source: *Survey of Current Business*, September, 1955.

# LOCAL ILLINOIS DEVELOPMENTS

Mixed trends marked the beginning of the fall season in Illinois economic activity. September department store sales ran 10 percent ahead of August; about half this rise is seasonal. Life insurance sales and electric power production, on the other hand, were down almost 10 percent, and changes in the other major indicators ranged in between.

Compared with a year ago, business is still booming in all directions. Increases of 30, 40, and 50 percent were recorded for petroleum, steel, and construction respectively. The only index below 1954 was farm prices, sagging under the weight of large surpluses.

## Work Stoppages, 1927-54

In 1954 there were 206 strikes in Illinois, fewer than in any year since 1940, and the total of man-hours lost because of stoppages over labor-management disputes was smaller than in any year since the end of World War II. Man-days lost as a result of strikes represented only one-tenth of 1 percent of the total time worked in 1954, less than half that for the nation as a whole.

The pattern of strike losses in Illinois since 1927 is pictured in the accompanying chart. The most significant aspect of the chart is the steep rise in the number of strikes during the war and the comparatively small work loss of that period as defense considerations forced swift settlements.

Of interest, too, are the reasons behind the great peaks in loss of man-days because of the work stoppages. In 1927 the coal companies won a long and bitter struggle over wage reductions, not involving many separate strikes or many men, but lasting several weeks. The peak of 1932 was the result of desperation strikes in many industries as the unions tried to maintain the position of their workers. In 1937 both number of strikes and work loss reached another peak brought about by organizational efforts of new unions.

Minor strikes were not infrequent during the war but defense needs brought the work loss down sharply. The end of the war witnessed a great surge of strikes, mainly

to secure higher wages, with the greatest work loss in history. Booming business and the tag ends of the Korean inflation, without its defense pressures, brought stoppages and resultant losses to a lesser peak in 1952.

In the first six months of 1955 both the number of strikes and the work loss in the nation ran about one-third more than in the same period of 1954. Widespread prosperity and the large number of contracts coming due in the steel, automotive, and other important industries probably account for most of the rise.

## 1956 Road Improvement

Expenditures of \$127 million will be made by the State for extension and improvement of highways in 1956, according to present plans. This amount is almost half again the value of contracts let during 1955. More than one-fourth of the total will be used for new highways, and another \$29 million will be used for bridge construction and for grade separations.

In preparation for its huge building program the Illinois Toll Road Commission sold \$415 million in bonds at 3¾ percent during October to finance the Illinois road system. Although a last-minute suit charging illegality of the issue prevents delivery of the bonds until they are litigation-free, the issue was well received by the market. Construction is scheduled to begin next spring, although the first sections will not be open for use until late in 1957 and the road will not be completed until 1959. A total of \$352 million is to be used for land purchase and construction expenditures, with financing costs expected to use up the remainder.

## Early Results of New Consumption Taxes

August was a month of confusion and waiting as the retailers of the State made their first remittances for the city sales tax and the new use tax. The city sales tax yielded a net of \$1.8 million, which was distributed to 114 cities. Confusion reigned, however, as the State collected local sales taxes from almost 70 towns which had not even passed a local sales tax!

Less than \$350,000 was collected during the first month of the new use tax, a good bit less than was anticipated by the Department of Revenue. Significantly, more than one-fifth of the tax collected was from the out-of-state purchase of automobiles, purchase of which is easily determined on license applications.

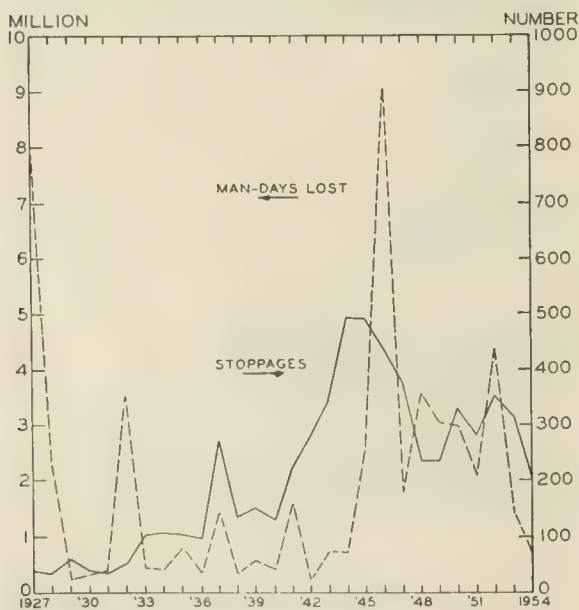
## Bubbling Boom

With the bubbling of new wells, Illinois has been raised to the rank of seventh oil-producing state in the nation. In recent months it has produced almost as much oil as all of the other states east of the Mississippi River combined. Output in August was 7.3 million barrels, 35 percent higher than in the same month a year ago.

Record drilling has been at least partly responsible for the surge of oil since 1954. In July alone 260 new wells began pumping, six of these wells resulting from wildcat drilling in new areas. Extensions of these new pools will add further impetus to growth in the petroleum business of Illinois. In September four more pools and extensions of seven pools were discovered.

In all 17 pools were discovered in the first nine months of this year. They include three in Washington County, six in Saline County, and one each in Bond, Christian, Edwards, Gallatin, Madison, Marion, St. Clair, and Sangamon counties.

ILLINOIS STRIKE LOSSES, 1927-54



Source: Bureau of Labor Statistics.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

September, 1955

		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>5</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b>		<b>\$46,331<sup>a</sup></b>	<b>1,055,511<sup>a</sup></b>			<b>\$13,828<sup>a</sup></b>	<b>\$15,044<sup>a</sup></b>
	{ Aug., 1955....	-18.1	+0.7		+10	+1.4	+10.2
Percentage change from	{ Sept., 1954....	+55.8	+13.6		+4	+12.2	+5.2
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b>		<b>\$27,796</b>	<b>802,616</b>			<b>\$12,584</b>	<b>\$13,253</b>
	{ Aug., 1955....	-33.6	+2.8		+12	+1.2	+10.5
Percentage change from	{ Sept., 1954....	+28.5	+12.8		+4	+12.1	+4.7
<b>Aurora</b>		<b>\$ 469</b>	<b>n.a.</b>			<b>\$ 56</b>	<b>\$ 114</b>
	{ Aug., 1955....	-88.5			+7	+5.9	-0.7
Percentage change from	{ Sept., 1954....	-30.6			+9	+13.8	-1.2
<b>Elgin</b>		<b>\$ 666</b>	<b>n.a.</b>			<b>\$ 36</b>	<b>\$ 116</b>
	{ Aug., 1955....	+78.6			+6	+2.2	+23.3
Percentage change from	{ Sept., 1954....	+130.4			-4	+12.0	+1.8
<b>Joliet</b>		<b>\$ 651</b>	<b>n.a.</b>			<b>\$ 70</b>	<b>\$ 84</b>
	{ Aug., 1955....	+64.4			+10	+2.4	-7.6
Percentage change from	{ Sept., 1954....	+104.1			+11	+11.7	-2.3
<b>Kankakee</b>		<b>\$ 230</b>	<b>n.a.</b>			<b>n.a.</b>	<b>\$ 42</b>
	{ Aug., 1955....	+219.4			n.a.		+7.6
Percentage change from	{ Sept., 1954....	+12.7					+25.9
<b>Rock Island-Moline</b>		<b>\$1,132</b>	<b>20,810</b>			<b>\$ 84<sup>b</sup></b>	<b>\$ 129</b>
	{ Aug., 1955....	+19.9	-7.3		n.a.	-1.7	-8.6
Percentage change from	{ Sept., 1954....	+12.0	+8.4			+13.3	-3.4
<b>Rockford</b>		<b>\$1,032</b>	<b>36,133</b>			<b>\$ 160</b>	<b>\$ 184</b>
	{ Aug., 1955....	-32.9	-2.4		+9 <sup>c</sup>	+2.3	+9.3
Percentage change from	{ Sept., 1954....	-35.5	+25.8		+10 <sup>c</sup>	+18.7	+11.3
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b>		<b>\$1,135</b>	<b>7,341</b>			<b>\$ 61</b>	<b>\$ 102</b>
	{ Aug., 1955....	+261.5	-8.1		n.a.	+2.7	-11.6
Percentage change from	{ Sept., 1954....	+118.3	+12.4			+3.9	+44.0
<b>Champaign-Urbana</b>		<b>\$ 782</b>	<b>9,620</b>			<b>\$ 63</b>	<b>\$ 95</b>
	{ Aug., 1955....	+36.2	-6.6		n.a.	+5.0	+17.8
Percentage change from	{ Sept., 1954....	+274.2	+16.4			+18.2	+8.2
<b>Danville</b>		<b>\$ 188</b>	<b>10,754</b>			<b>\$ 53</b>	<b>\$ 60</b>
	{ Aug., 1955....	-51.7	-2.5		-6	+6.2	+8.6
Percentage change from	{ Sept., 1954....	-37.1	+11.4		+15	+11.1	-4.3
<b>Decatur</b>		<b>\$4,506</b>	<b>30,730</b>			<b>\$ 115</b>	<b>\$ 134</b>
	{ Aug., 1955....	+83.0	-2.3		+4 <sup>c</sup>	+3.9	+21.3
Percentage change from	{ Sept., 1954....	+742.2	+31.2		+5 <sup>c</sup>	+14.0	+26.5
<b>Galesburg</b>		<b>\$ 431</b>	<b>8,082</b>			<b>n.a.</b>	<b>\$ 36</b>
	{ Aug., 1955....	-29.6	-4.5		n.a.		+12.2
Percentage change from	{ Sept., 1954....	+15.2	+19.4				+0.8
<b>Peoria</b>		<b>\$2,590</b>	<b>53,278<sup>c</sup></b>			<b>\$ 215</b>	<b>\$ 277</b>
	{ Aug., 1955....	+131.7	-5.6		-2 <sup>c</sup>	+3.4	+23.0
Percentage change from	{ Sept., 1954....	+326.7	+14.3		+5 <sup>c</sup>	+14.9	+32.9
<b>Quincy</b>		<b>\$3,439</b>	<b>10,231</b>			<b>\$ 38</b>	<b>\$ 60</b>
	{ Aug., 1955....	+1,654.6	-0.5		+5	-4.5	-4.8
Percentage change from	{ Sept., 1954....	+592.0	+25.0		+5	+6.4	-2.8
<b>Springfield</b>		<b>\$ 609</b>	<b>31,290<sup>c</sup></b>			<b>\$ 115</b>	<b>\$ 230</b>
	{ Aug., 1955....	-5.3	-9.7		n.a.	+2.5	+16.1
Percentage change from	{ Sept., 1954....	+147.6	+9.6			+15.9	+10.3
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b>		<b>\$ 364</b>	<b>13,641</b>			<b>\$ 138</b>	<b>\$ 61</b>
	{ Aug., 1955....	-10.1	-6.2		n.a.	+5.5	-7.4
Percentage change from	{ Sept., 1954....	+219.3	+7.0			+6.2	-21.9
<b>Alton</b>		<b>\$ 133</b>	<b>13,480</b>			<b>\$ 41</b>	<b>\$ 28</b>
	{ Aug., 1955....	-19.4	-9.3		n.a.	+5.9	-1.5
Percentage change from	{ Sept., 1954....	-75.3	+11.0			+20.6	-3.6
<b>Belleville</b>		<b>\$ 178</b>	<b>7,503</b>			<b>n.a.</b>	<b>\$ 40</b>
	{ Aug., 1955....	-64.3	-6.1		n.a.		-13.3
Percentage change from	{ Sept., 1954....	+178.1	+15.1				+1.2

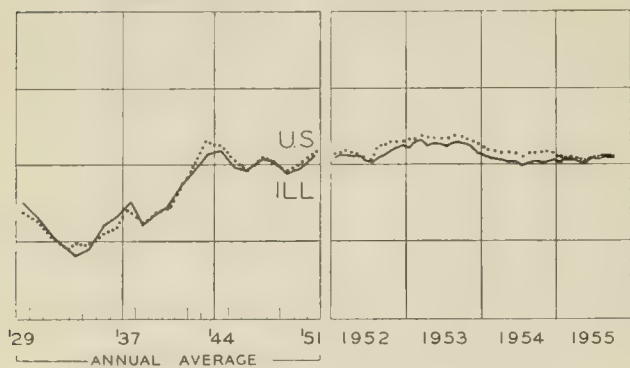
<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.

Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. Data for August are not available. <sup>3</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

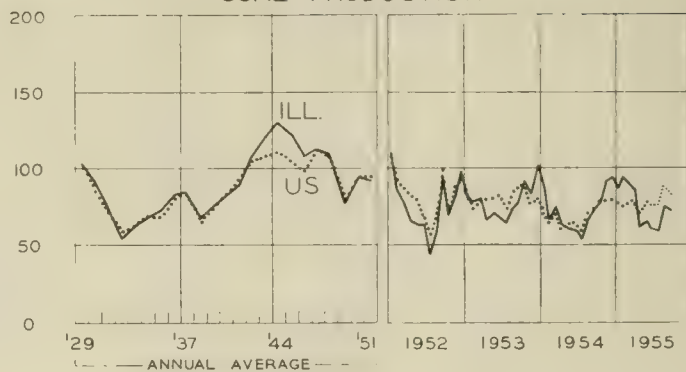
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

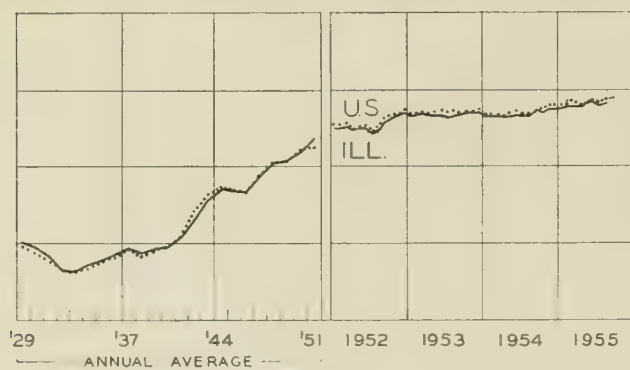
EMPLOYMENT - MANUFACTURING



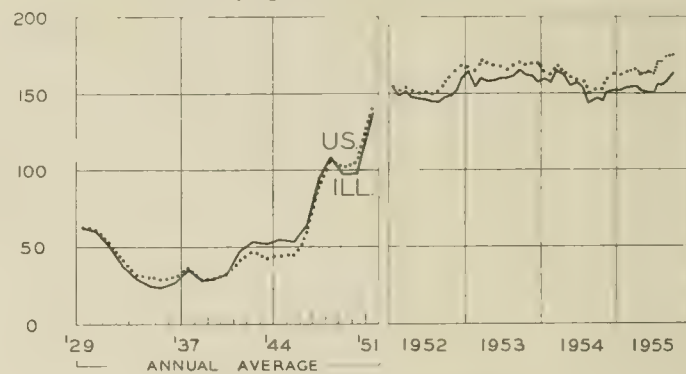
COAL PRODUCTION



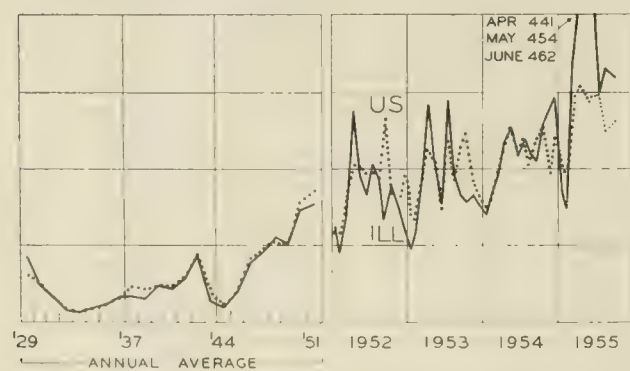
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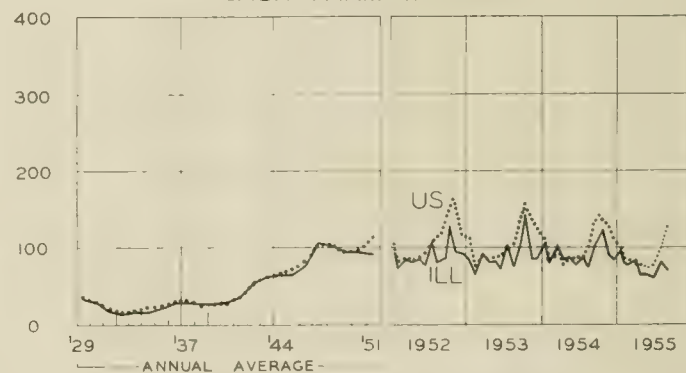
BUSINESS LOANS



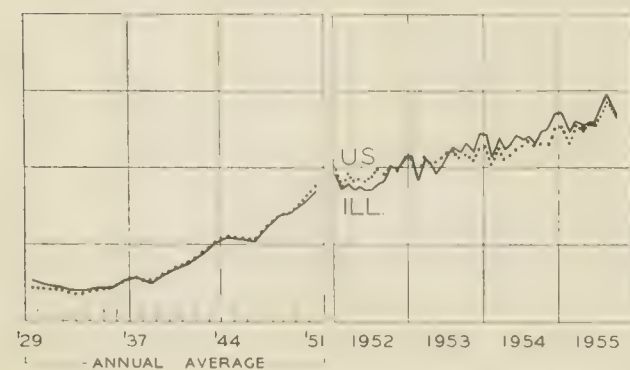
CONSTRUCTION CONTRACTS AWARDED



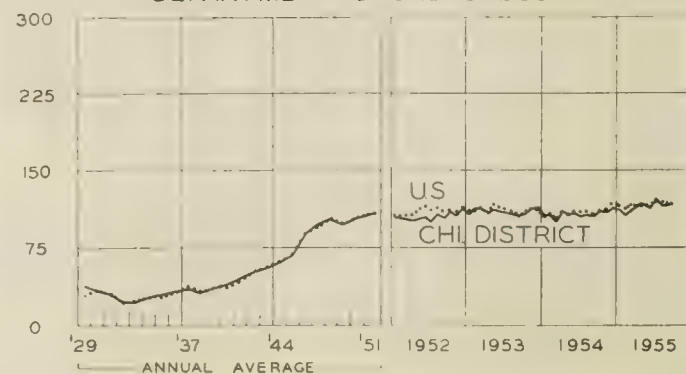
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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## HIGHLIGHTS OF BUSINESS IN NOVEMBER

Increasing industrial and trade activity was the keynote of business in November. All indications were that the personal income of the American people during that month reached a new high exceeding the October record of \$310 billion at an annual rate.

Activity in trade, in manufacturing, in construction, and in utilities were all at record or near record levels. Department store sales in November were 6 percent higher than a year ago, and electric power output, one of the key indicators of business activity, was ahead of last year by weekly margins of 18 percent or more.

The principal exception to the upward movement was agriculture, as depressed prices kept farm incomes well below last year. A sharp drop in hog and cattle prices in November reduced the farm parity ratio to 81, the lowest figure in fifteen years.

### Employment Up

More people were gainfully employed this November than in any past November in our history. Dropping less than seasonally from the October high, the 64.8 million people holding jobs in November represented an increase of 2.6 million over the number at work in November, 1954. Unemployment, at 2.4 million, was also higher in November, but the increase was seasonal and still left a jobless total nearly half a million below a year ago.

Large seasonal cutbacks in agriculture, construction, and food processing occurred in November, with about one million workers laid off from farm work. In industry and trade, however, employment gains were reported. Factory employment rose 100,000 to a new November peak of 17.1 million, a gain of nearly one million over last November. At the same time, production workers in factories earned more than ever before—an average of \$79.52 per week.

### Inventories Accumulate

Manufacturers, wholesalers, and retailers increased their inventory holdings by \$700 million during October, after seasonal adjustment. This brought the book value of their stocks at the end of the month to \$81.3 billion, nearly \$4 billion more than the value of stocks a year ago.

The bulk of the increase was at the manufacturing level, where stocks jumped \$500 million during October, mostly in durable goods industries. Retailers' inventories rose only slightly more than seasonally as did those of wholesalers.

So far businessmen have managed to increase sales more than inventories. Thus, while inventory holdings at the beginning of November exceeded the year-earlier figure by 5 percent, total business sales in October were 14 percent above October, 1954.

### 1956 Farm Prospects

Farm incomes in 1956 will probably be lower than the estimated \$10.6 billion earned in 1955, according to recent estimates of the United States Department of Agriculture. Cash receipts from the sale of livestock and products may be as high as they were this year but a further reduction in income from crops seems likely. Although production expenses may also be somewhat lower in 1956, a further reduction in farm income appears in prospect.

Despite the decline in farm income and in farm prices during the past year, the total value of farm assets rose in 1955 paradoxically and may not change much in 1956. The explanation lies in the valuation of farm real estate, which has continued to increase for several reasons. Principal among these have been the desire of farmers to enlarge their farms, liberalized lending policies, good crop yields this year, the optimistic general business outlook, and the expectation of increased demand for farmland over the long run.

### Higher Capital Outlays

Further increases in capital expenditures of American business are in prospect, if the most recent plant and equipment survey of the United States Department of Commerce and the Securities and Exchange Commission proves correct. Company investment plans reported in November indicate that expenditures for new plant and equipment in the first quarter of next year may reach \$7.3 billion, about 12 percent more than was spent in the first quarter of this year. Although this would be seasonally below the \$8.0 billion of capital expenditures being made in the last quarter of this year, it would represent after seasonal adjustments a record \$31.6 billion annual rate of spending.

The biggest increase in planned outlays relative to the first quarter of this year was reported by railroads, up 55 percent. Capital outlays of durable goods manufacturers as a whole are expected to rise by 25 percent, those of nondurable goods manufacturers by 12 percent. Utilities are planning to increase expenditures 5 percent; mining and transportation other than railroads 3 percent.

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## Approaching the Turn

The optimists have put up "one-way" signs along the economic road. These signs indicate that the way is ever upward.

The effects of extreme optimism pervade all phases of economic activity. They are perhaps most apparent in the stock market, in the willingness of consumers and businessmen to borrow for greater spending, and in the "inflation" of industrial costs. But they are not confined to these phenomena, nor to our economy alone. The entire Western World is riding high.

The exhilaration of a joy-ride typically leads to some disregard of possible danger. The nature of the economic danger we face has been pointed out in previous issues of this *Review*. We are riding the combined crest of long and short cycles—a long postwar cycle and a short cycle that has been carried to an extreme. It is not a situation that can be long maintained.

### Character of the Boom

The fact that the boom has lasted longer and carried farther than anyone anticipated a year ago affords no assurance for thinking that it can continue. Such a movement does not eliminate, but on the contrary, intensifies the need for readjustment. The boom has already over-carried the limits of potential stability, and the farther it goes, the more severe will be the reaction.

The advance from the 1954 lows was powered first by a strong recovery in residential construction; then by a turn toward renewed accumulation of business inventories; and in the early months of 1955 by a strong upsurge in consumer expenditures, particularly for durable goods purchased on credit. More recently, as business became convinced that demand was strong, expenditures for plant and equipment have taken up the burden of sustaining the advance.

All these factors have drawn heavily on credit, with the result that tight money markets have forced interest rates up. The concentration of demands on durable goods have also created shortages of primary materials. The threat of shortages makes for duplicate ordering and gives the impression that such industries as steel will never catch up with demand. Prices of raw materials and wage rates have advanced, creating an aura of inflationary pressure. This, however, is but a symptom typically experienced in the late stages of any inventory boomlet.

It holds no implication that the pace of activity will hold high for more than a brief interval. Such a conclusion could only rest on an analysis of causes, not of symptoms.

### The Best Hope for 1956

The forces that have pushed the economy up to the current heights are now largely spent. They cannot be expected to produce further gains; and barring new international incidents, there is nothing in sight to keep the boom going. The best that can be hoped for in 1956, therefore, is stability at current high levels.

Homebuilding is already headed downward, and it is generally agreed that the decline will continue into 1956. New housing starts began to slide early this year, before the tightening of mortgage credit. It is doubtful if current efforts to ease credit can bring the decline to a halt in the near future.

Consumer purchases have been running in excess of what might be expected on the basis of past relationships to income, by roughly the full extent of the increase in consumer credit, or an annual rate of \$6 billion. Some aspects of this problem are dealt with in the special article in this issue. There is a high probability that saving will increase next year as the expansion in credit comes to a halt. The obverse of this shift is a relative reduction in expenditures, particularly for durable goods. Hence, total consumer expenditures are not likely to advance appreciably even though income increases somewhat further.

Inventories are in process of reaching the highs of a cyclical swing which began from the 1954 lows. From an annual rate of liquidation of \$5 billion to an equivalent rate of accumulation involves a contribution of \$10 billion to the upswing. There was a temporary letdown in the third quarter, as the surge in auto buying took stocks out of dealers' hands, and accumulation then dropped back to an annual rate of \$2½ billion. The best outcome would be a moderate rate of accumulation persisting through 1956, but such a development is unlikely. The auto industry is now producing at a peak rate and will rebuild stocks in the next few months. The accumulation of inventories in other lines of business is continuing.

A temporary dip in accumulation, resulting from a surge in consumer buying, like that of the third quarter, is not a healthy development under these conditions. It intensifies the drive to increase holdings. Such intensification of an inventory upswing typically results in pressure on prices, which further aggravates the upward phase of the cycle. However, such movements are also typically short-lived. The usual development in a situation like the present, where business is highly optimistic, would be for output to begin piling up as inventories in the next few months. That is what happened in the spring of 1951. If stocks do pile up, they will, as before, force an early reversal. The higher the peak rate of accumulation reached, the more the reversal will contribute to the forces of recession.

Business investment in plant and equipment is still moving up. In large part, this is the lagged response of capacity building to the general increase in activity. For some months, the advance will continue, but it is futile to expect that investment will continue going up on its own, after everything else has leveled. Estimates derived from surveys of planned capital outlays indicate an increase of \$4 billion from 1955 to 1956. But approximately two-thirds of this has already been realized by the fourth quarter. The extension of the movement could hardly be

(Continued on page 6)



### JEWELRY MANUFACTURE AND TRADE

The making of jewelry was one of the first trades to be established in the American colonies, with elaborate snuffboxes, inlaid with gold or silver, one of the most important products. Even though the tools of the old-time craftsmen were very crude by today's standards, their workmanship and skill remain as prime examples of the trade. However, it was difficult to distinguish between the various occupations, as a jeweler was then a combination goldsmith, silversmith, watchmaker, and salesman — quite different from the specialist we know today.

#### Development of the Industry

The first American "manufactory" of jewelry, as distinguished from the early craft methods of production, was established in 1790 at Newark, New Jersey, which soon became a center for the trade. By 1805 there were also four establishments at Providence, Rhode Island, and one at Attleboro, Massachusetts. At first, the majority of the products consisted of spoons, forks, rings, and articles of similar nature. However, as time progressed, some of the manufacturers turned their attention to other items, particularly cheap jewelry made of alloys containing only small amounts of gold or silver.

The discovery of gold in California in 1848 greatly encouraged the development of the fine jewelry industry. Twelve years later, another development in the form of electroplating opened the way to the modern mass market by reducing the cost of items similar in appearance to those actually made of gold or silver. This process made possible an attractive line of low-priced tableware and various other commodities. Plated ware entered the market as a competitor of solid silver with a strong price advantage, but in recent years the low cost of silver and numerous technical improvements in the manufacture of quality goods have increased the demand for solid silver products.

#### Types of Jewelry

Modern jewelry may be classified into two major categories — fine jewelry and costume jewelry. The first includes high-quality gold and silver work, with or without settings of precious stones, and is largely the product of hand craftsmanship. The second, costume jewelry, is stamped, cast, or turned out by other mass-production methods, and is made from many materials, including plastics. It is often referred to as "junk jewelry" by the trade and constitutes the bulk of commercial jewelry currently produced.

Of the many articles of jewelry in use today, the diamond is perhaps the most symbolic of the trade. Many attempts have been made to manufacture diamonds by artificial means but no process has yet met with commercial success. Colorless zircon rivals the diamond in brilliance but its use as a gem is limited by its brittleness and pitted surface. Precious and semiprecious stones are still used exclusively as settings in fine jewelry, but imitation stones tend to dominate the costume jewelry field. Perhaps the most widely used imitations are rhinestones.

These stones are made of molded glass and are given a foil backing which tends to lend a sparkle that glass alone does not have.

The use of gold-plated and gold-filled articles has become increasingly popular in recent years and has caused a noticeable decline in the sales of solid gold items. Likewise, the development of inexpensive alloys has resulted in a decline in the use of the more costly platinum and palladium, with the result that these basic precious metals have had to take a back seat. This is especially true in the costume jewelry field.

In addition to precious metals, precious and semi-precious jewels, and costume jewelry, the jewelry trade also handles an assortment of allied products. Such articles as clocks and watches, pens and pencils, key rings and chains, and jewel and cigarette boxes can in part be included in the category of jewelry.

#### The Jewelry Trade

The manufacture of jewelry is largely concentrated in Rhode Island, Massachusetts, New Jersey, and New York City, where 1,700 of the nation's 2,500 fine and costume jewelry manufacturers are located. California, Pennsylvania, and Illinois are next in line in order of their importance. Although Illinois is not a major producer of fine jewelry, it does have over 100 firms engaged in the manufacture of costume jewelry and currently employs 9,000 people in the jewelry manufacturing industry.

In the wholesale trade, Chicago with over 300 jobbers, is one of the major markets, second only to New York City. Another major wholesale market is located at St. Louis, Missouri.

The number of retail jewelers in the nation has increased considerably in the past few years and currently numbers 34,000 as compared with 14,560 in 1939. There are three major "types" of retailers in the trade: cash jewelers, credit or installment jewelers, and repairers (usually very small stores relying principally on repair work). In addition, there are many miscellaneous retailers, such as drug, department, and discount stores, who handle costume jewelry, watches, and related products. Illinois is currently rated as the third largest retail market among the states, only New York and California having a greater number of retailers. Of the 2,000 retail jewelers located in Illinois, 1,600 are cash, 230 credit, and 170 classified as repairers. In 1954 the total volume of retail sales amounted to more than \$141 million, accounting for 8 percent of the national market.

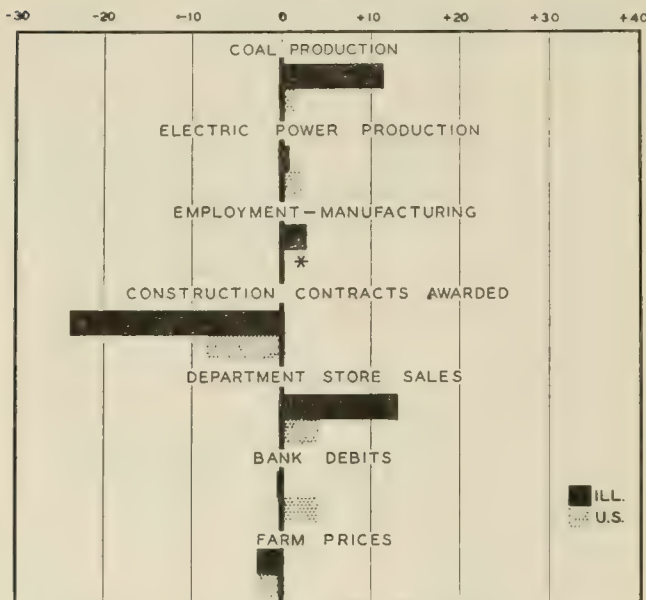
The Illinois jewelry trade, although not a seasonal industry, relies heavily upon the Christmas season, during which approximately 30 percent of all sales are made. May and June, traditionally associated with graduations and weddings, are also periods of activity. With the current high in personal income providing an impetus for consumer durable purchases, this holiday season should keep the jewelry trade in step with other lines of business reaching new highs.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes September, 1955, to October, 1955



\* No change.

## ILLINOIS BUSINESS INDEXES

Item	October 1955 (1947-49 = 100)	Percentage Change from	
		Sept. 1955	Oct. 1954
Electric power <sup>1</sup> .....	205.2	+ 0.7	+ 9.7
Coal production <sup>2</sup> .....	82.6	+11.3	+ 6.3
Employment—manufacturing <sup>3</sup> ...	108.7	+ 2.6	+ 7.4
Weekly earnings—manufacturing <sup>3</sup>	147.4 <sup>a</sup>	+ 2.6	+ 8.9
Dept. store sales in Chicago <sup>4</sup> ....	118.0 <sup>b</sup>	+ 5.4	+12.4
Consumer prices in Chicago <sup>5</sup> .....	119.0	+ 0.1	+ 1.6
Construction contracts awarded <sup>6</sup>	242.2	-23.9	- 6.1
Bank debits <sup>7</sup> .....	157.6	- 0.4	+12.2
Farm prices <sup>8</sup> .....	75.0 <sup>c</sup>	- 2.6	-10.7
Life insurance sales (ordinary) <sup>9</sup> ...	198.3	+10.8	+25.0
Petroleum production <sup>10</sup> .....	132.0	+ 0.4	+19.2

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.  
<sup>a</sup> September data; comparisons relate to August, 1955, and September, 1954. <sup>b</sup> Seasonally adjusted. <sup>c</sup> Revised series.

## UNITED STATES MONTHLY INDEXES

Item	October 1955	Percentage Change from	
		Sept. 1955	Oct. 1954
	Annual rate in billion \$		
Personal income <sup>1</sup> . . . . .	309.6 <sup>a</sup>	+ 0.6	+ 7.4
Manufacturing <sup>1</sup> . . . . .			
Sales . . . . .	320.4 <sup>a</sup>	- 1.5	+18.7
Inventories . . . . .	45.2 <sup>a, b</sup>	+ 1.1	+ 4.6
New construction activity <sup>1</sup>			
Private residential . . . . .	17.5	- 4.1	+10.1
Private nonresidential . . . . .	15.2	- 1.5	+15.5
Total public . . . . .	14.1	- 5.1	+ 8.9
Foreign trade <sup>1</sup>			
Merchandise exports . . . . .	15.0 <sup>c</sup>	+ 1.4	+12.0
Merchandise imports . . . . .	11.3 <sup>c</sup>	- 1.4	+21.1
Excess of exports . . . . .	3.6 <sup>c</sup>	+11.3	- 9.2
Consumer credit outstanding <sup>2</sup>			
Total credit . . . . .	34.6 <sup>b</sup>	+ 1.0	+19.6
Installment credit . . . . .	27.0 <sup>b</sup>	+ 1.0	+22.8
Business loans <sup>2</sup> . . . . .	25.1 <sup>b</sup>	+ 1.8	+19.4
Cash farm income <sup>3</sup> . . . . .	n.a.	....	....
	Indexes (1947-49 = 100)		
Industrial production <sup>2</sup>			
Combined index . . . . .	142 <sup>a</sup>	0.0	+12.7
Durable manufactures . . . . .	161 <sup>a</sup>	+ 0.6	+15.8
Nondurable manufactures . . . . .	128 <sup>a</sup>	+ 0.8	+ 9.4
Minerals . . . . .	122 <sup>a</sup>	0.0	+11.9
Manufacturing employment <sup>4</sup>			
Production workers . . . . .	107 <sup>a</sup>	+ 0.4	+ 6.2
Factory worker earnings <sup>4</sup>			
Average hours worked . . . . .	103	+ 0.7	+ 3.3
Average hourly earnings . . . . .	144	+ 0.5	+ 5.5
Average weekly earnings . . . . .	148	+ 1.3	+ 9.0
Construction contracts awarded <sup>5</sup>	244	- 8.5	- 5.2
Department store sales <sup>2</sup> . . . . .	122 <sup>a</sup>	+ 0.8	+ 8.9
Consumers' price index <sup>4</sup> . . . . .	115	0.0	+ 0.3
Wholesale prices <sup>4</sup>			
All commodities . . . . .	112	- 0.2	+ 1.6
Farm products . . . . .	87	- 2.9	- 6.9
Foods . . . . .	100	- 1.3	- 3.4
Other . . . . .	119	+ 0.4	+ 3.9
Farm prices <sup>3</sup>			
Received by farmers . . . . .	85	- 2.3	- 4.5
Paid by farmers . . . . .	112	0.0	0.0
Parity ratio . . . . .	82 <sup>d</sup>	- 2.4	- 5.8

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for September, 1955; comparisons relate to August, 1955, and September, 1954. <sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1955					1954
	Nov. 26	Nov. 19	Nov. 12	Nov. 5	Oct. 29	Nov. 27
Production:						
Bituminous coal (daily avg.).....	1,806	1,743	1,670	1,697	1,665	1,486
Electric power by utilities.....	10,727	11,149	10,878	10,853	10,659	9,087
Motor vehicles (Wards).....	174	207	209	194	183	130
Petroleum (daily avg.).....	6,859	6,851	6,808	6,777	6,750	6,270
Steel.....	140	139	140	139	140	111
Freight carloadings.....	677	772	797	809	835	584
Department store sales.....	146	142	141	128	126	133
Commodity prices, wholesale:						
All commodities.....	111.1	111.1	111.2	111.3	111.1	110.0 <sup>a</sup>
Other than farm products and foods.....	119.2	119.2	119.1	119.1	118.7	114.8 <sup>a</sup>
22 commodities.....	89.0	88.6	88.4	88.5	88.3	90.4
Finance:						
Business loans.....	25,833	25,783	25,485	25,303	25,124	22,137
Failures, industrial and commercial.....	205	214	207	237	230	226

Source: Survey of Current Business, Weekly Supplements.

<sup>a</sup> Monthly index for November, 1954.



# RECENT ECONOMIC CHANGES

## Employment Drops Seasonally

Employment declined seasonally in November but was still at a record high for the month. The decline reflected the slower pace of activity on the nation's farms as non-farm employment rose, but not enough to offset the decline in farm work. Unemployment increased, also seasonally, by 267,000 but was 500,000 below a year ago. Census data in thousands of workers are as follows:

	Nov. 1955	Oct. 1955	Nov. 1954
Civilian labor force.....	67,205	67,292	64,624
Employment.....	64,807	65,161	61,731
Agricultural.....	6,900	7,905	6,154
Nonagricultural.....	57,907	57,256	55,577
Unemployment.....	2,398	2,131	2,893

## Manufacturing Employment and Production

Although total civilian employment has been above year-earlier levels for several months, manufacturing employment is still below the 1953 highs despite a substantial rise from 1954. Manufacturing production in October, on the other hand, was five points higher than the 1953 peak.

As shown by the chart, manufacturing production has advanced considerably more than employment over the past three to four years. The chart also illustrates the point that production is more erratic than employment. This is partly because fluctuations in employment are cushioned by adjustments in the length of the workweek. For example, from July, 1954, to October, 1955, production rose 16 percent whereas employment rose only 9 percent. Over the same period the length of the average factory workweek moved from 39.4 hours to about 41 hours.

MANUFACTURING EMPLOYMENT AND PRODUCTION



Sources: Bureau of Labor Statistics and Federal Reserve Board.

Not all of the disparity between employment and production gains can be attributed to hours worked, however. Short-term increases in productivity tend to be extreme. Some help is always needed for maintenance and other overhead regardless of the level of production. As production increases, a relatively smaller increase in man-hours is required. In addition the long-term upward movement in productivity with improved processes and equipment contributes to the greater growth in output.

## Gross Product Advance

Gross national product continued to advance during the third quarter. Total output was up almost \$7 billion from the second quarter to \$391.5 billion (seasonally adjusted annual rate). The gain was more moderate than the increase of \$9.5 billion between the first and second quarters because of a slight decline in residential construction and a reduction in the rate of inventory accumulation from \$4.3 billion in the second quarter to \$2.4 billion in the third. The decline in inventory investment largely reflected liquidation of auto inventories as sales ran above seasonal expectations in the third quarter. Investment in producers' durable equipment and nonresidential construction together increased by \$2.3 billion to offset the reduced rates in other private investment.

The consumer sector was most buoyant in the third-quarter rise in gross product. Expenditures were up by \$5.5 billion to \$256.0 billion, with \$2.1 billion of the advance concentrated in expenditures for durables (to a large extent autos), \$1.7 billion in nondurables, and \$1.6 billion in services.

## Flow-of-Funds Accounts

The Federal Reserve Board has a new set of accounts for keeping track of our economy. Called the flow-of-funds system, it is designed to trace the sources and uses of funds involved in various kinds of transactions. For purposes of the accounts the economy is divided into 10 major sectors, such as consumers, corporate business, unincorporated business, governments, the banking system, and the rest of the world. For each of the 10 sectors, a breakdown of the sources from which funds were obtained and the type of transaction involved is given.

Every transaction is entered at least four times in the accounts. For example, a transaction involving the cash sale of an automobile by a dealer to a consumer will be entered as a purchase by the consumer, a sale by the dealer, a reduction in cash by the buyer, and an increase in cash by the seller.

A detailed description along with summary accounts for 1939-54 appears in the October, 1955, issue of the *Federal Reserve Bulletin*. In 1954 consumers used and obtained funds totaling \$324 billion. The bulk of this total was used in such transactions as purchases of goods and services, insurance premiums, taxes, capital acquisitions, and purchases of securities. The largest source of consumer funds, \$195 billion, derived from payrolls, of which \$119 billion originated in the corporate sector, \$33 billion in the noncorporate and farm sector, \$32 billion in government, and the remainder in the financial sector. Included in other sources were borrowed funds and payments to consumers of insurance benefits and various grants.

## Approaching the Turn

(Continued from page 2)

sufficient to offset adverse movements in the factors already considered.

Government expenditures will probably make a small positive contribution. State and local expenditures in particular are on a continuing upward trend. But further gains in this area will be minor in 1956, even if some new programs are undertaken. Developments in the private economy will dominate.

### Stability Inconsistent

Although this analysis reveals hardly any prospect of further advance, it does leave open the possibility of high-level prosperity continuing through 1956. The trouble with such a projection is that, on further analysis, it turns out to be inconsistent. It is inconsistent because too many important elements are dependent upon the rise in activity and income.

The present rate of business investment represents an expansion of capacity sufficient to provide for a substantial rate of growth in the economy. If activity no more than holds stable, investment will have to be cut back — eventually, all the way back to the replacement level.

The rate of inventory accumulation is also much more than sufficient to meet the needs of a stable situation. Inventories are not low, despite widely accepted arguments to the contrary. Three common fallacies appear in such arguments: First, total sales are used as the base for judging the size of inventories, so that the sales base improperly includes goods flowing into inventory holdings as well as into consumption. Second, the ratio to sales by itself makes no allowance for the long-term downward trend resulting from improved efficiency in utilization of inventories. And third, comparison of the inventory-sales ratio with recent experience does not afford a safe criterion for the current position; although the ratio is down since 1953, for example, the 1953 inventories were unduly high as an aftermath of the Korean War scare and therefore overstate the desirable level of inventory holdings.

It may be true that inventories are not yet excessive. But they are almost sure to become excessive before the current accumulation is halted. Then, there will have to be a swing all the way over to liquidation to eliminate the excess. The deflationary effects of the reversal would, of course, be felt long before actual liquidation set in.

Consumer spending also has been dependent in part upon the rise in income. This may be seen from either the durable goods or the consumer credit points of view. Sales of such durables as autos have been supported by the strong advance in incomes; more people felt they could afford to buy because their incomes were higher. Also, more people became good credit risks because their incomes were higher. The rise in income thus combined with other temporary factors to produce an extraordinary surge in spending, with some borrowing from future levels of sales.

The resultant of a stable level of income in all these cases is a decline. But if all these important segments drop back, income will fall. The decline in income will then react adversely on all segments of the private economy. The reversal in such key lines as auto sales and business inventories will therefore be sharp, not just moderate. This is the way the leveling at the peak of a boom is usually transformed into recession.

## Extent of the Decline

The two favorable possibilities are thus eliminated: A continued advance cannot be realized; a stable level cannot be maintained. What remains to be considered is the extent of the prospective decline.

It is important to note in this context that the readjustment in 1956 will be based primarily on volatile factors, to wit, on reversals in business inventories and consumer credit. Declines in these volatile factors take place quickly. They will have more or less run their course within the year, and then the economy will tend to stabilize and recover somewhat from the lows.

Construction and business investment in general are vulnerable, and will follow with some lag; but these relatively stable elements will still be at a fairly high level by the end of the year. How much of a shock they receive in the recession will be important in determining activity in 1957 and later. Immediately, however, their role will be on the side of moderation. They may be expected to contribute somewhat more to the decline than government expenditure programs are likely to contribute toward halting it. Nevertheless, the net effect of all factors other than inventories and consumption appears likely to be very limited.

The decline will also be cushioned by the "automatic stabilizers" and other factors supporting consumer income, in like manner to the way it was supported in 1954. Corporate profits have been made increasingly volatile by the depreciation and amortization provisions of the present tax law. They may fall back all the way to the 1954 low next year. In addition, further tax cuts are in prospect. The tax cutters will definitely have the upper hand in this election year, because high tax receipts based on 1955 record income offer prospects of a budget surplus. These changes will sustain disposable personal income by preventing declines in gross expenditures from being carried over fully into the income accounts.

On the other hand, any decline in disposable personal income will probably be reflected fully in declining expenditures. Savings have been severely depressed by the 1955 surge in spending. Just as they fell a little this year, while income was rising, so they may rise a little next year, while income is falling. The net effect of these opposed influences may be an adjustment in consumer expenditures more or less in line with gross national product as a whole.

Combining all these elements into a forecast indicates that a recession will begin from the high of the present movement, probably to be reached in the early months of 1956, and continue to a low near the end of the year, perhaps in the first quarter of 1957. The decline from a peak annual rate of approximately \$400 billion to the corresponding low a year later is estimated at about \$25 billion in real gross product, or somewhat more than 5 percent. The pattern of recession may somewhat resemble that of 1938, which also was formed primarily by autos and inventories. The probable timing is such that not even the first half of 1956 can be considered secure.

Forgotten at the moment is the fact that the sharpest turns are the hardest to get around. Disillusion, if not actual disaster, is likely to result from coming upon one unexpectedly. A possible consequence — one boding ill for the longer future — would be a complete reversal in sentiment, from extreme optimism to extreme pessimism. It may be that the "one-way" signs will not only be taken down but erected on the other side of the street.

V.L.B.



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Small Business Research

The Bureau of Business Research of the University of Pittsburgh has recently compiled an extensive bibliography on the problems of small manufacturing firms. It covers the topics of establishment, management and operation, economic aspects, and governmental influences, listing many books and articles of interest on each subject. More than 200 pages long, the *Small Business Bibliography* is available from that Bureau for \$1.00.

### Credit Union Growth

First organized in Europe about a century ago, credit unions have existed in North America only since 1900 and in the United States since 1909. Their growth has been prodigious, however, and in 1954 there were more than 15,000 in the United States and almost 4,000 in Canada, as may be seen in the accompanying chart.

The average growth rate has been somewhat faster in the United States than in Canada, although Canada did not show the dip in the war years. Although figures are incomplete, the chart shows "other" nations in the western Hemisphere growing fastest at the present time; their growth is even more rapid than that in North America in the years of early development.

A credit union is, essentially, a group of persons who pool their savings and make loans to each other at low interest. Union membership is generally limited to a particular group, such as employees of a given firm, members of a given church, or persons closely associated in a community. Employee groups account for about 70

percent of the number of credit unions, with labor unions adding another 10 percent.

The average credit union in the United States has about 475 members. Its loans outstanding at the end of 1954 were about \$100,000, and total assets were half again as much. Membership in Canada averaged slightly less, but assets were about the same.

Illinois has the largest number of credit unions among the states, 1,325. New York, despite its substantially larger population, has only two-thirds as many. Although it has fewer credit unions than Illinois, California has more members and a significantly higher volume of loans and savings.

### Waste-Saving Heater

A Scotch Heater is now available for Scotchmen and others who may want to make use of the heat that goes up the chimney. The heater works by blowing air through a coil of tubes which are placed in the chimney or smoke pipes to be heated by the otherwise wasted gases escaping from the heating plant. According to the makers, this air will be warm enough to raise room temperatures 10 to 15 degrees. The air may be blown directly into a garage or basement to warm those areas or an adapter may be attached to the tubes to send the heat into air ducts to circulate in the house itself.

Containing a small motor, a fan, and the core of tubes, the unit weighs 40 pounds. It is manufactured by the Micro Scotch Heater Corporation, a subsidiary of Micro-Moisture Controls, Inc., 22 Jerico Turnpike, Mineola, New York. The retail price is about \$150.

### Economic Indicators

Recently published is a revised historical supplement to the monthly publication *Economic Indicators*, put out by the staff of the Joint Committee on the Economic Report in cooperation with the Council of Economic Advisers. The reports are widely used in academic and business circles, and are available from the United States Government Printing Office in Washington at a price of \$2.00 per year.

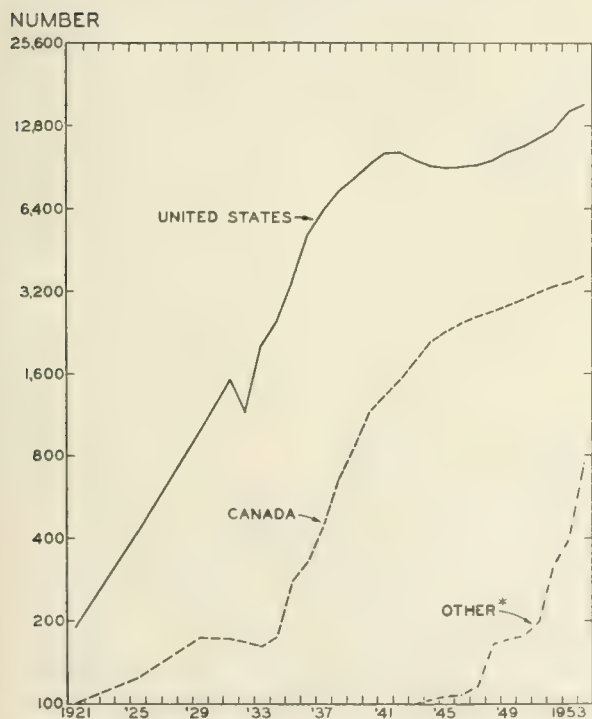
A great many series are presented, some going back as far as 1910. The topics covered include national output, income, and spending; employment, unemployment, and wages; production and business activity; prices; currency, credit, and security markets; and Federal finance.

The supplement is valuable not only for the historical data which it presents, but also for the wealth of descriptive material about the data. This is divided into four parts—a description of the series, a discussion of statistical procedures used in getting and combining the data, the relationships among the series and the differences between them, and a discussion of the uses and limitations of the series.

### Modern Cataloging

A push-button catalog is now available from Marketing Devices, Inc., 1170 Broadway, New York. The device is manufactured by the Industrial List Finder Division of the Bates Manufacturing Company, Orange, New Jersey. It is an adaptation of the Bates telephone list finder, enabling the salesman or the customer to easily find the product in which he is interested without thumbing through several pages.

CREDIT UNIONS IN THE WESTERN  
HEMISPHERE, 1921-54



\* Incomplete data

Source: Credit Union National Association, *Credit Union Yearbook 1955*

# IS CONSUMER CREDIT TOO HIGH?

MARVIN FRANKEL, Research Assistant Professor

Consumer debt has mounted steadily in the postwar years. In 1947, exclusive of mortgage debt, it stood at a modest \$11.5 billion. By the end of 1953 it had risen to \$29.5 billion, and by the end of 1955 another \$6 billion will be added to this sum.

This rapid rise, coupled with the record total of consumer debt outstanding, has occasioned a twofold apprehension. The first concerns household solvency. Are families overextending themselves? The second is whether the present pace of consumer borrowing can be sustained. Will new credit expansions continue to buttress consumer purchasing power in the future as in the past, or will the rate of borrowing slacken with possibly unhappy consequences for income and employment?

The problems of household solvency and the maintenance of purchasing power are related. If households become overextended then they must eventually reduce their rate of borrowing and of expenditures; and if in consequence incomes drop the household position will change for the worse.

## Credit and Household Solvency

Not only has household indebtedness risen steadily in absolute terms, but it has risen more rapidly than has disposable income. Chart 1 shows the general picture, comparing postwar changes with prewar peak levels. Consumer debt stood at 7.7 percent of disposable income in 1929, remained close to this figure through the depression, and then rose fairly steadily, reaching 11 percent by 1940. During the war, with incomes and savings high and consumers' goods short, the percentage dropped but afterwards again moved upward. By 1953 the prewar peak had been exceeded, with credit outstanding amounting to 11.8 percent of disposable income. By the end of this year it

will have risen still higher, to 13 percent, a figure about double that for 1947.

The trend in debt relative to that of selected liquid assets of consumers—savings deposits of various types plus government bonds—exhibits a roughly similar pattern. However, despite a continued rise since the war, the 1941 peak of 23.8 percent in the debt-liquid asset ratio has not yet been reached.

Coordinate with the increase in debt, annual repayments to lenders have grown steadily. For installment credit alone they now are running at a rate in excess of \$30 billion. Repayments tell only part of the story, however; they have to be matched against new borrowing, which has exceeded repayments in every year since the war. The difference between new borrowing and repayments represents net borrowing, which is also the annual change in the amount of debt outstanding.

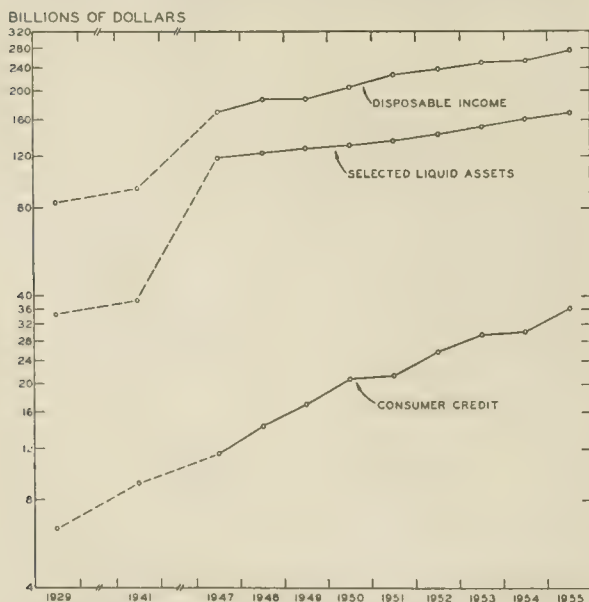
The rising ratio of debt to income does not lead automatically to the conclusion that the present debt level is too high. The signs are mixed, with at least a few of them suggesting that the danger point has not yet been reached. The structure of debt by income group, for example, does not give cause for pessimism. Debt seems not to be concentrated among those with low incomes. Rather the bulk of it is owed by families with incomes in excess of \$4,000. Assuming that employment is maintained, these are families who should be able to meet their obligations without undue difficulty. Moreover, the great majority of all families in debt are successfully meeting their repayments as they fall due, since delinquency rates are running at customarily low levels.

Certain other signs also are more favorable than unfavorable. In all postwar years except 1950 the amounts added by families and individuals to their liquid assets have exceeded the amounts by which they have increased their indebtedness. Chart 2 shows the movements of the two variables for selected years.

Over the entire 1947-55 period, liquid assets have grown by almost \$50 billion compared with a rise in debt about half as great. However, they have not grown relative to the latter, permitting a rise in the debt-asset ratio, and it might be argued that this ratio is a more significant measure of the consumers' financial picture. Moreover, the families who are adding to their liquid assets are not necessarily the same as those who are adding to their debt. While for many families both magnitudes may increase simultaneously, for others they may move inversely. Nevertheless it is worth observing that families in the aggregate are accumulating from their incomes in readily accessible forms sums more than sufficient to cover their borrowings.

Much the same thing may be said of savings in relation to net borrowing. Here, unfortunately, data ideal to our purpose are not available, since the savings figures include, besides personal savings, the savings of unincorporated enterprises. Neglecting this circumstance we find that in all postwar years saving has exceeded borrowing. The margin favoring saving is even greater than it seems, for saving is defined as the difference between disposable income and consumption expenditures, and consumption expenditures are financed in part by borrowing. Thus the gap between disposable income and consumption financed by income is substantially larger than the savings figures show.

CHART 1. DISPOSABLE INCOME, SELECTED LIQUID ASSETS, AND CONSUMER CREDIT



\* Year-end figures for 1955 are estimated by the author. Sources: U. S. Department of Commerce, Federal Reserve Board, and U. S. Savings and Loan League.



To summarize, the household picture is not a conclusive one. The ratio of debt to income and liquid assets has been rising, but at the same time annual savings and the additions to liquid assets have exceeded increases in consumer debt, and delinquency rates continue to be low. A further sustained rise in the debt-income ratio would place family budgets under strain. Any appreciable tightening of credit that led to higher interest rates or shorter terms of repayment would do the same thing. But at prevailing high levels of income, household solvency does not appear to be threatened.

The proviso regarding incomes is strategic. Should employment and incomes fall, the household position would at once deteriorate. Arguments that would emphasize the present apparent strength of household finances must in the last analysis come to grips with this fact.

## Credit and Consumer Demand

Consumer credit is a source supplemental to income out of which goods and services are purchased. Its ready availability, when joined with the willingness of families to borrow, contributes to total consumer expenditures and helps thereby to sustain aggregate economic activity. If borrowing falls too far, purchases and in turn production, employment, and income may be adversely affected.

The contribution of credit to the finance of consumption outlays is not large. Generally in the postwar years it has comprised under 2 percent of the total. The annual sums involved are low also relative to the year-to-year changes that have taken place in consumption outlays. For these reasons borrowing might be thought unimportant.

But seen in a different light it becomes a more vital element in the finance of expenditure. Close to two-thirds of net borrowing is used to finance purchases of durable goods; this year it will account for over 13 percent of the total. Since the demand for durables is comparatively unstable and since, within limits, the need for durables is postponable, borrowing can be a decisive factor in actual purchases by consumers.

The question arises, will households choose to sustain their current rate of purchase of durables and so have occasion to sustain the current rate of borrowing? One

clue to the answer lies in types of uses to which borrowing is put. In 1948, as Chart 2 indicates, slightly under 40 percent of net borrowing was for automobile purchases. The comparable figure for 1950 was 66 percent, and a reasonable estimate for 1955 would be 75 percent. That is, approximately \$4.5 billion of the \$6-billion increase in debt taking place this year will be used to finance auto purchases.

Obviously then the outlook for consumer credit depends very largely on the outlook for automobile sales. A record has been set in 1955 with roughly 7½ million cars moving into the hands of users. Yet if auto output and sales merely hold to their present high rate, rising repayments will cut into new borrowing, curtailing it drastically by the end of 1956. For auto sales and their finance through credit to contribute to aggregate demand next year at the same rate as in 1955, an appreciable rise in volume would be necessary. That is, the gap between current and recent past sales would have to be maintained.

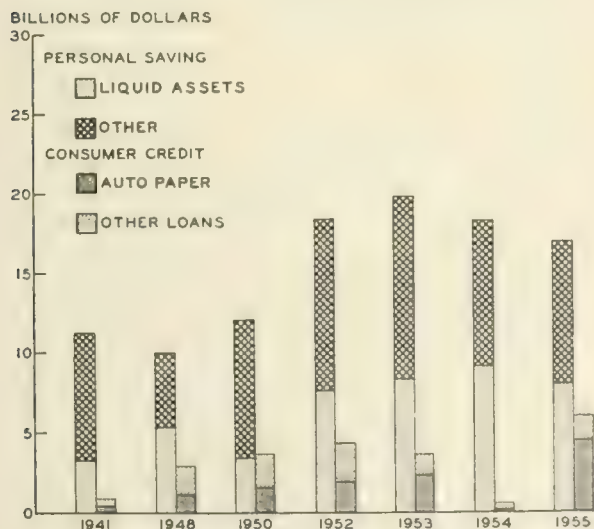
Another way of looking at it is to observe that with auto sales steady but repayment requirements rising, net borrowing will in time come to a halt. This is so because the rate of repayment on past borrowing lags behind the rate of new borrowing when the latter is rising. This lag varies depending on how rapidly new borrowing rises, on the terms of repayment, and on the stock of outstanding indebtedness. The present lag may be estimated at between 13 and 16 months. When the rise in borrowing is halted, repayments catch up and households must adjust. If they maintain their auto purchases, they will have to cut purchases of other goods and services or draw more heavily on savings.

But are auto sales likely to continue at even their present rate? In this writer's judgment, the chances are against it. Both the present rate of auto output and of borrowing to finance it are, historically, at uniquely high levels. More to the point, automobiles are not purchased for their own sake, but for the services they yield, and at any particular time the stock of automobiles must stand in some reasonable relation to the services demanded of it. There is reason to believe that, by this criterion, the current rate of growth in the stock of cars is too high. A fall in the annual rate of sales to 6 million, still a good year for the industry by past standards, would quickly suffice to erase net borrowing.

In brief, the contribution of borrowing to total purchases could quickly be eliminated. The \$6 billion contribution for 1955 is significant in itself, even in our present high-level economy, and would become more so if liquidation set in. Any setback would not be limited to the auto industry. Repercussions would be felt by all those supplying it either with goods or services, including labor services. So far as consumers, faced with a rising repayment burden, sought to tighten their budgets generally, it would be felt also by industries not directly related to autos. The effects could be cumulative and would be intensified by investment cutbacks, for investment is geared ultimately to anticipated consumer expenditure.

We are thus brought back again to the problem of household solvency. Whereas the household situation now is fairly strong, a fall in income would weaken it rapidly. A large debt, with increasingly burdensome repayment requirements, is likely to generate resistance by consumers to further borrowing. Equally relevant, by tying up a part of their income in contractual obligations and by weakening their credit ratings, it limits their ability to borrow. These considerations are cause for concern over the size of the present debt and its rate of increase.

CHART 2. INCREASES IN PERSONAL SAVING AND CONSUMER CREDIT



Sources: U. S. Department of Commerce, Federal Reserve Board, and U. S. Savings and Loan League.

# LOCAL ILLINOIS DEVELOPMENTS

Seasonal factors dominated business trends in Illinois during October. Sharp rises were recorded in department store sales, coal production, and life insurance sales. Construction, on the other hand, declined by almost one-fourth.

Comparisons with October, 1954, show that business was considerably more active than last year. Department store sales, bank debits, and electric power production were 10 percent ahead of 1954; gains of about 20 percent were recorded by business loans, petroleum production, and life insurance sales; and steel production was up 42 percent. Construction contracts awarded during the month, however, were below the year-ago figure for the first time in eight months. Farm prices also continued lower as stocks of commodities and livestock grew.

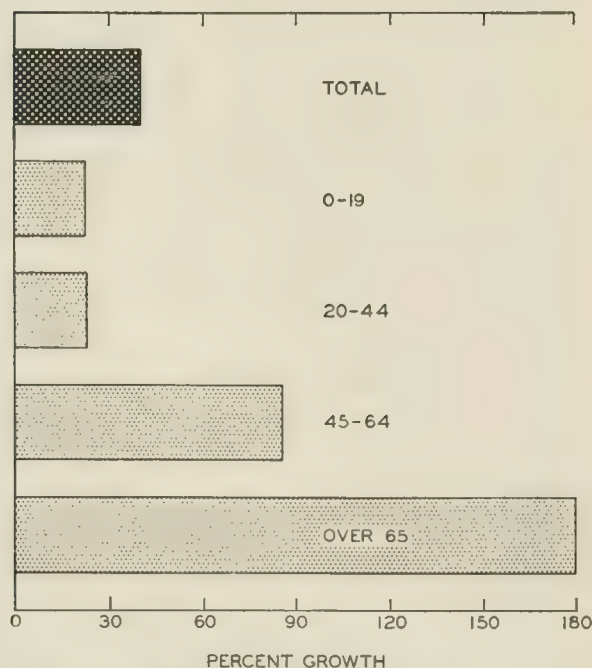
## Population Reports

The population of Illinois rose to 9.1 million persons as of July 1, 1954, an increase of more than 60,000 over 1953. The whole of the rise came in the larger metropolitan areas, continuing the long-term trend toward urbanization. The Chicago area accounted for 80 percent.

The expansion of population, which has brought a 50-percent increase in the number of persons in the State in the last three decades, results only in part from a rising number of births. In no small degree it is also caused by the medical advances which have greatly increased a person's chances to live into old age.

This second factor shows up also in the changing age distribution of the population. As shown in the accompanying chart, the total population has grown just over 40 percent since 1920, but those under 45 have increased only a bit more than 20 percent, the number of persons 45 to 65 has almost doubled, and those 65 or over have almost trebled. Economically significant is the much

ILLINOIS POPULATION GROWTH BY AGE,  
1920-54



Source: Illinois Department of Public Health.

slower rate of growth of the most productive group in the population, those between 20 and 65, than of older persons. Projections of these trends indicate that an increasingly heavy burden of support is likely to fall on this 20 to 65 age group.

## Bank Debits to Set New Record

Debits to demand deposit accounts are well on their way to setting a new record at banks in both the State and the nation. With the Christmas peak still to come, debits at Illinois banks during the first 10 months already total 90 percent of the 1954 sum, and the first 11 months will almost equal last year. A 1955 total about 10 percent above the previous record is not at all unlikely for the State.

While all but one of the reporting cities shown on the opposite page have shared in the rise so far this year, they have not shared equally. The gains range up to 16.4 percent (Decatur), with all but Bloomington advancing more than 8 percent. Only East St. Louis suffered a decline; since this includes the National Stock Yards banks, it is probably traceable to the drop in meat prices. Last year, despite the fall pickup in business, four cities totaled below 1953 and the largest gain was only 7.7 percent.

## Banner Year for Corn

Illinois tops the nation with its corn crop this year, moving ahead of its neighbor Iowa. With a 520-million-bushel total harvest estimated, the State's farmers are turning in the third highest crop on record, exceeded only in 1948 and 1952.

A yield of 56 bushels per acre is estimated, four bushels more than the average for the past decade. This is 24 bushels larger than the average for 1870-80, the first decade in which records were kept. Although weather and disease make the crop yield highly variable from year to year, the long-term trend, as shown by comparing the 10-year averages, is markedly upward. Three major factors are behind this rise — improved varieties of corn hybrids, use of fertilizers and crop rotation to build the soil, and use of machinery which enables the farmer to take advantage of brief periods of good weather for planting and cultivation. Disease control also helps to boost yields.

## Living Costs

Although comparatively stable relative to its rise during the war years, the consumer price index continued to inch upward. In October the index stood at a record 119 for Chicago (1947-49 = 100). This is 2.1 points above the April low for the year and 1.6 points over October, 1954.

A large portion of this rise was attributable to increased costs of housing and household operation. Solid fuels and fuel oil, for example, were 7 points higher than a year ago. Prices of apparel, principally footwear, increased slightly. Transportation, medical care, personal care, and reading and recreation have also risen during the year, but they are not so important to the total.

Declines in many food prices have helped to keep living costs down. The group as a whole has declined 1.5 points since October, 1954, largely because of the drop in meat prices. Fruits, vegetables, and many grocery items have also drifted downward, but dairy products and cereal and bakery products are up slightly.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

October, 1955

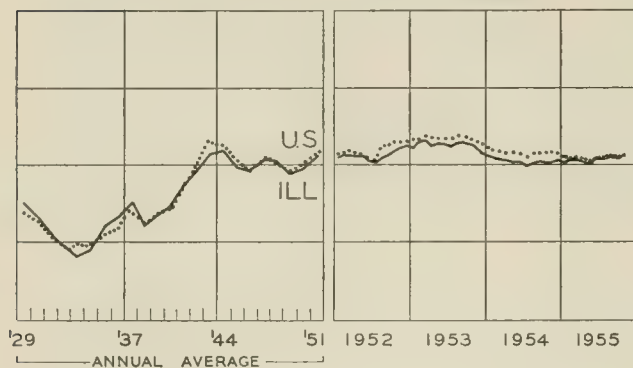
		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b>		<b>\$28,696<sup>a</sup></b>	<b>1,013,001<sup>a</sup></b>			<b>\$13,776<sup>a</sup></b>	<b>\$14,882<sup>a</sup></b>
Percentage change from	Sept., 1955	-38.1	-4.0		+13	-0.4	-1.1
	Oct., 1954	-11.6	+9.3		+10	+12.2	+3.2
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b>		<b>\$18,785</b>	<b>765,690</b>			<b>\$12,489</b>	<b>\$13,039</b>
Percentage change from	Sept., 1955	-32.4	-4.6		+13	-0.8	-1.6
	Oct., 1954	-27.9	+8.3		+10	+12.0	+2.7
<b>Aurora</b>		<b>\$ 643</b>	<b>n.a.</b>			<b>\$ 58</b>	<b>\$ 118</b>
Percentage change from	Sept., 1955	+37.1			+11	+3.9	+3.4
	Oct., 1954	+58.0			+11	+21.8	+11.9
<b>Elgin</b>		<b>\$ 306</b>	<b>n.a.</b>			<b>\$ 37</b>	<b>\$ 100</b>
Percentage change from	Sept., 1955	-54.1			+13	+2.5	-14.0
	Oct., 1954	-39.6			+16	+17.1	+1.3
<b>Joliet</b>		<b>\$ 376</b>	<b>n.a.</b>			<b>\$ 72</b>	<b>\$ 112</b>
Percentage change from	Sept., 1955	-42.2			+8	+2.5	+33.6
	Oct., 1954	-39.5			+14	+14.3	+29.1
<b>Kankakee</b>		<b>\$ 226</b>	<b>n.a.</b>			<b>n.a.</b>	<b>\$ 43</b>
Percentage change from	Sept., 1955	-1.7			n.a.		+3.6
	Oct., 1954	+89.9					+11.7
<b>Rock Island-Moline</b>		<b>\$1,562</b>	<b>21,676</b>			<b>\$ 92<sup>b</sup></b>	<b>\$ 156</b>
Percentage change from	Sept., 1955	+38.0	+4.2		n.a.	+9.5	+20.8
	Oct., 1954	+77.9	+16.7			+13.7	+5.1
<b>Rockford</b>		<b>\$1,999</b>	<b>35,673</b>			<b>\$ 159</b>	<b>\$ 192</b>
Percentage change from	Sept., 1955	+93.7	-1.3		+16 <sup>c</sup>	-0.4	+4.6
	Oct., 1954	+136.8	+12.0		+13 <sup>c</sup>	+17.9	+3.4
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b>		<b>\$1,097</b>	<b>7,442</b>			<b>\$ 60</b>	<b>\$ 100</b>
Percentage change from	Sept., 1955	-3.3	+1.4		n.a.	-2.8	-2.4
	Oct., 1954	+140.0	+13.3			+4.6	+12.8
<b>Champaign-Urbana</b>		<b>\$ 435</b>	<b>9,764</b>			<b>\$ 70</b>	<b>\$ 111</b>
Percentage change from	Sept., 1955	-44.4	+1.5		n.a.	+12.4	+17.0
	Oct., 1954	+339.4	+6.2			+17.4	+10.1
<b>Danville</b>		<b>\$ 182</b>	<b>9,881</b>			<b>\$ 53</b>	<b>\$ 64</b>
Percentage change from	Sept., 1955	-3.2	-8.1		+21	+1.6	+7.3
	Oct., 1954	+21.3	+1.7		+17	+13.0	+15.7
<b>Decatur</b>		<b>\$ 762</b>	<b>30,859</b>			<b>\$ 132</b>	<b>\$ 99</b>
Percentage change from	Sept., 1955	-83.1	+0.4		+14 <sup>c</sup>	+15.1	-25.6
	Oct., 1954	+11.1	+19.5		+9 <sup>c</sup>	+20.2	-7.6
<b>Galesburg</b>		<b>\$ 288</b>	<b>7,684</b>			<b>n.a.</b>	<b>\$ 35</b>
Percentage change from	Sept., 1955	-33.2	-4.9		n.a.		-3.6
	Oct., 1954	+119.8	+13.8				+3.8
<b>Peoria</b>		<b>\$ 488</b>	<b>50,597<sup>c</sup></b>			<b>\$ 227</b>	<b>\$ 255</b>
Percentage change from	Sept., 1955	-81.2	-5.0		+11 <sup>c</sup>	+5.7	-7.7
	Oct., 1954	+23.9	+13.2		+8 <sup>c</sup>	+20.0	+14.5
<b>Quincy</b>		<b>\$ 276</b>	<b>9,381</b>			<b>\$ 42</b>	<b>\$ 68</b>
Percentage change from	Sept., 1955	-92.0	-8.3		+9	+12.0	+12.8
	Oct., 1954	+56.8	+17.1		-2	+11.5	-1.6
<b>Springfield</b>		<b>\$ 354</b>	<b>30,964<sup>c</sup></b>			<b>\$ 112</b>	<b>\$ 231</b>
Percentage change from	Sept., 1955	-41.9	-1.0		n.a.	-2.0	+0.2
	Oct., 1954	-2.2	+9.1			+12.0	+2.8
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b>		<b>\$ 634</b>	<b>13,932</b>			<b>\$ 133</b>	<b>\$ 83</b>
Percentage change from	Sept., 1955	+74.2	+2.1		n.a.	-3.3	+37.3
	Oct., 1954	+248.4	+15.1			-0.3	+14.5
<b>Alton</b>		<b>\$ 159</b>	<b>13,276</b>			<b>\$ 37</b>	<b>\$ 30</b>
Percentage change from	Sept., 1955	+19.5	-1.5		n.a.	-7.8	+6.6
	Oct., 1954	-1.9	+8.6			+11.8	-6.8
<b>Belleville</b>		<b>\$ 124</b>	<b>6,181</b>			<b>n.a.</b>	<b>\$ 46</b>
Percentage change from	Sept., 1955	-30.3	-17.6		n.a.		+12.9
	Oct., 1954	-50.0	+1.7				-1.4

<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Data for September are not available. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

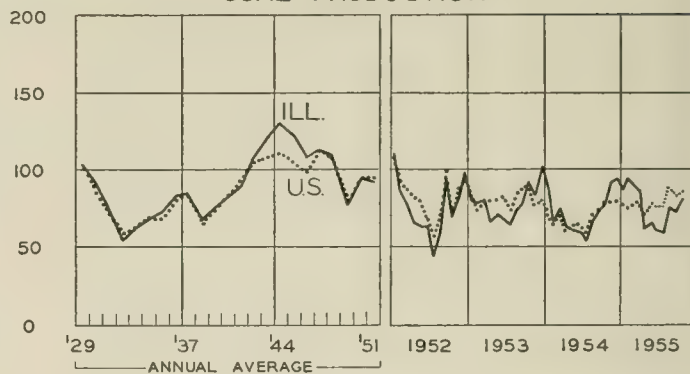
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

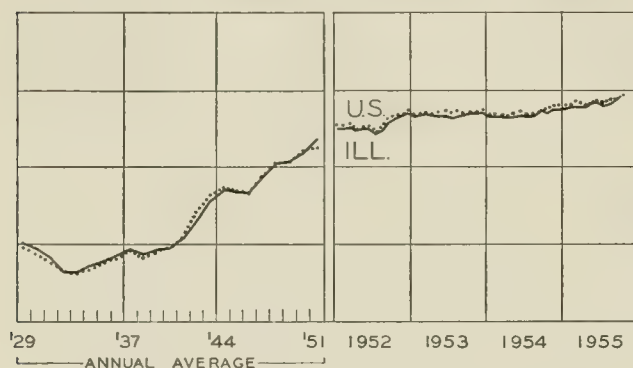
## EMPLOYMENT - MANUFACTURING



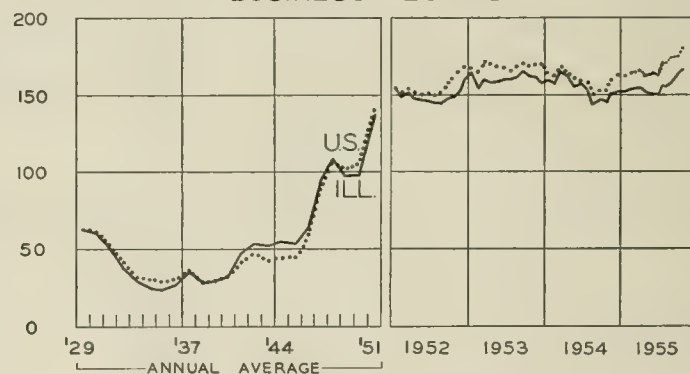
## COAL PRODUCTION



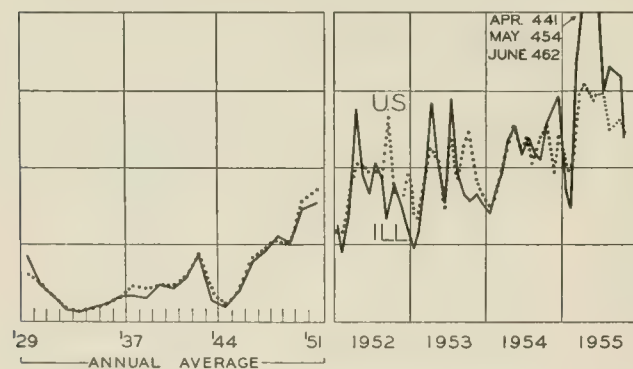
## AVG. WKLY. EARNINGS — MANUFACTURING



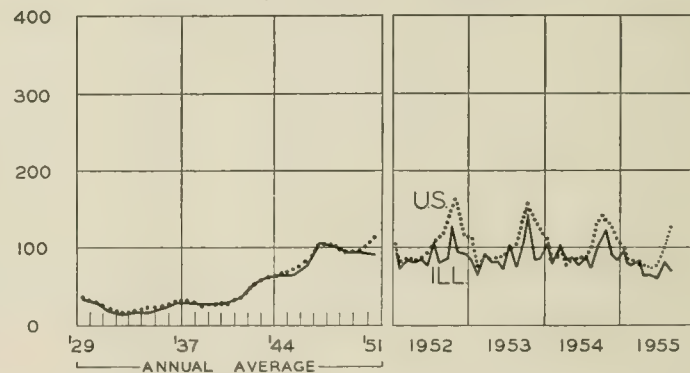
## BUSINESS LOANS



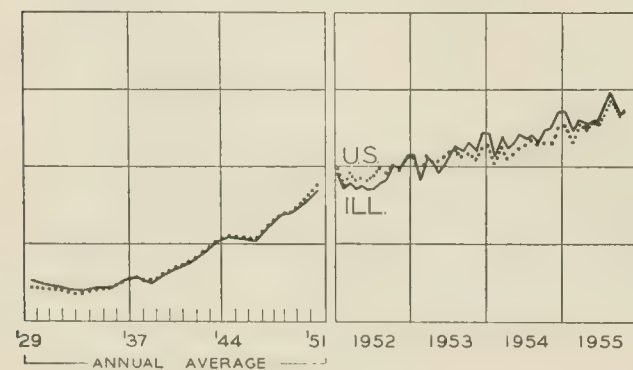
## CONSTRUCTION CONTRACTS AWARDED



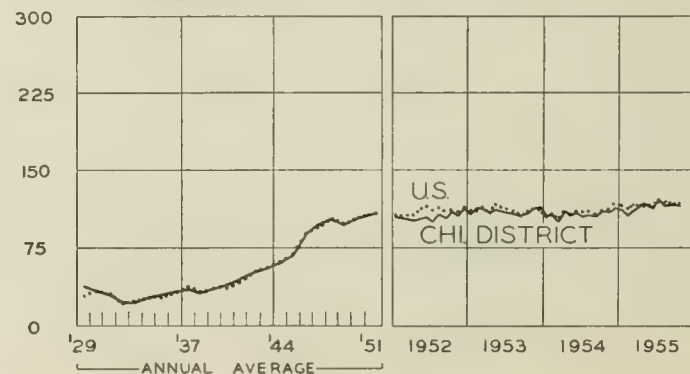
## CASH FARM INCOME



## ELECTRIC POWER PRODUCTION



## DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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## HIGHLIGHTS OF BUSINESS IN DECEMBER

The month of December was undoubtedly the most successful one that department stores had ever had. For the month as a whole, sales exceeded last December's figure by a substantial 10 percent. The gain in retail sales generally, however, may not have been as large as that for department stores because of a smaller pickup in auto sales.

Elsewhere on the business scene, activity continued brisk. Employment and electric power output, two key indicators of business activity, remained at very high levels, while unemployment was a nominal 2.4 million. Despite a slackening in automobile production, steel producers had sufficient orders on their books to keep them operating at peak rates for months ahead. Copper, zinc, and lead continued in short supply, with further price increases posted or threatened.

### 1955 in a Nutshell

For the nation as a whole, 1955 was the most prosperous year so far in its history. The gross national product, the market value of aggregate goods and services, is estimated at \$387 billion, 7 percent more than in 1954 and more than three and a half times the value of goods and services turned out in the big prewar prosperity year, 1929.

The construction boom, record consumer expenditures (especially for durable goods), renewed accumulation of inventories, and an upturn in business investment were the principal factors underlying the 1955 prosperity. Outlays for new construction in 1955 rose 12 percent to a new high exceeding \$42 billion, with new housing starts rising to 1,300,000 and industrial and commercial building at new peaks. Retailers sold \$185 billion worth of goods in 1955, \$15 billion more than in 1954 or in any other previous year, while consumers went deeper into debt than ever before. This record consumer demand accompanied by business needs for additional inventories and production facilities led to new production peaks, the most notable perhaps being the 9.2 million motor vehicles produced (8.0 million passenger cars) and the 117 million tons of steel ingots and castings poured during the year. Concomitantly, employment rose to 63 million, and the stock market soared to new highs. Through all this, most prices remained relatively stable, though wage rates and industrial raw material prices did begin to move up after the middle of the year.

To farmers, however, 1955 was not a good year. The prices of farm products dropped, costs did not, and farm incomes declined on the average by 10 percent.

### Rising Consumer Debt

Consumer debt continued to mount during November and December. The total outstanding at the beginning of December came to \$35.1 billion and considering the usual seasonal upsurge in borrowing during December, this figure may have reached \$36 billion by the end of the year.

Contrary to the situation earlier in the year, borrowing to finance automobile purchases diminished greatly in importance. Consumer installment debt on auto purchases rose only \$77 million this November, the smallest such increase since the beginning of the year. Installment buying of other consumer goods was the main force behind the rise in consumer debt in November, the total of such obligations outstanding increasing by \$140 million. There were some indications that such buying also was tapering off, however, as the increase during November was about half that incurred monthly in the early part of 1955 and not much more than the October figure.

### Proposed Legislation

Legislation with important implications for business may be enacted at the current session of Congress if the recommendations of the President's State of the Union message are carried out. A new approach to the problem of farm surpluses is proposed, primarily through the establishment of a "soil bank" plan to compensate farmers for keeping surplus land out of production. The plan would be buttressed by strengthened commodity programs within the present system of flexible price supports.

Increased foreign economic aid, a five-year Federal aid program for more school buildings, the construction of 35,000 new public housing units in each of the next two years, a new program of highway construction, experimental Federal flood-damage annuities, higher mail rates, and extended coverage of the minimum wage law were other important areas in which new legislation was requested. The President also expressed a preference for reducing the national debt before enacting tax reductions.

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## Not Much Help

During the minor recession of 1954 in this country, manufacturing production in Western Europe continued upward. After recovery got under way here, the upswing abroad was accelerated. Strong demand for raw materials lifted production in the less industrialized countries, and improved food supplies eased their problems. The world-wide boom progressed to unprecedented levels in 1955, and mild monetary restraints were imposed in many countries to prevent threatened inflation.

The advance abroad not only displayed extreme vigor; it took place with little rise in consumer prices, and foreign reserves of gold and dollars continued to rise through 1955. This has given the boom an appearance of underlying strength. It looks so strong that some observers now regard it as an element of strength in our own economic picture. Analysis indicates, however, that the foreign sector cannot be expected to provide any substantial prop to business in this country.

## The Role of International Trade

As activity moved up into the present extended position, developments here and abroad have been mutually supporting. Export markets expanded on both sides and became a factor in the expansion of domestic investment throughout the world. When the movement comes to an end, the loss, too, will be felt on both sides.

The role of expanding trade in inducing new investment has been relatively unimportant in this country, though not insignificant. Since the summer of 1952, our exports (exclusive of military aid shipments) have followed an irregularly upward course, realizing an over-all gain of about 20 percent. During this period, Western Europe moved into the position of our leading export market, surpassing both Canada and Latin America. Limitations on their production forced them to buy from us more capital equipment and raw materials like coal and steel, helping in some cases to push our industries up to capacity.

In the European countries, investment undertaken to expand exports has been much more important than here. They started from an extremely depressed position at the end of the war, and increases in both production and exports have been relatively much greater than ours. To accomplish this, industries had to be created.

The new industries were heavily concentrated in the durable goods field. From prewar 1937 to early 1955 output of metal products in Western Europe rose 90 percent whereas textiles rose only 15 percent. With their industry becoming more like our own, they have been better able to compete with our industry both here and in other countries. A large part of the postwar gains in their exports to us have consisted of automobiles, bicycles, sewing machines, civilian aircraft, and other metal products. Increases in exports have not been confined to such products, of course, and their exports to each other have risen much faster than their exports to us or to other parts of the world.

Achieving trade expansion of this magnitude required heavy investment and heavy imports, which could not be financed wholly by exports. The necessary financing was obtained in good part as a result of our assumption of leadership in the Cold War. Our government grants to Western Europe have generally been sufficient to cover the deficits in their current trade balance with us. Our military expenditures abroad have represented an important addition to our total import demand, greatly reducing their deficits in civilian trade. Substantial payments by our civilians as gifts or remittances and heavy travel expenditures have also made substantial funds available, but these have been of a lower order of magnitude than the government programs.

Looking at our balance of payments with the rest of the world as a whole, the total financing we have provided by purchases, gifts, grants, and investments abroad has been more than sufficient to finance a substantial foreign deficit on merchandise account; it has enabled other countries to accumulate reserves. The rise in foreign gold and dollar assets has amounted to roughly \$2 billion a year since early 1952. At the end of 1955, holdings of such assets are estimated at over \$33 billion, and represent by far the greatest total reserves ever available to them.

## No Life-Line From Abroad

If business here should decline the trade picture would change drastically. The current boom is highly concentrated in durable goods. Imports of materials for use in the durable goods industries have grown to half the total value of imports of industrial materials, and durable goods have also grown in our imports of finished products. At the same time, imports remain the marginal source of supply for many nondurables, and consequently tend to fluctuate more widely than our own production and consumption of such commodities. The swings are particularly acute when inventories play an important role in a reversal. The prospective recession therefore may curtail our total imports much more drastically than did the minor recession of 1954. With foreign purchases from us still tending upward, this shift would undoubtedly reverse the balance of payments sufficiently to require use of reserves by foreign holders.

Since total reserves are currently so high it would seem that the shift in the balance of payments might represent a substantial sustaining force on the downswing, as it did in 1947. There seems little doubt that the net foreign investment item will rise, partially offsetting other declines in our gross national product, though countries that have been leaning on us will not find it easy to adjust to the change. Their own economies are vulnerable enough to give them plenty to worry about.

(Continued on page 6)



# THE HOME APPLIANCE INDUSTRY

The term "household appliance" has begun to take on a new meaning. Not too many years ago such items consisted mainly of refrigerators, stoves, washing machines, toasters, and electric irons. Today, however, freezers, dryers, air conditioners, blenders, broilers, roasters, coffeemakers, garbage disposal units, ironing machines, food mixers, heaters, radio and television sets, dishwashers, and even the kitchen sink may also be classified as household appliances. With new models and new types of products being constantly turned out, it appears that this industry is still in process of evolution.

### Growth

Since the turn of the century, the home appliance industry has become one of the largest manufacturers of consumer durables in the nation, second only to the automotive industry. In 1955 over 88 million electrical home appliances valued at \$7.9 billion were sold as compared with 37 million valued at \$1 billion in 1939, according to *Electrical Merchandising*.

There are many reasons for the remarkable growth of this industry. In the first place, there has been a steady flow of new products designed to give greater utility and convenience. These new products have created new markets and businesses which in turn have led to the development of additional new products. The increase in new and improved products has also contributed to the development of a huge replacement market. A good example is the automatic washer and dryer—only 76 percent of the 50 million American homes have washers, but already combination units that both wash and dry threaten to make the single units obsolete.

Other factors in the rapid growth of the appliance industry have been the steady rise in population and an increase in purchasing power. Today, there are more people earning higher incomes than ever before. During 1955, Americans spent \$35 billion on durable goods as compared with \$6.7 billion in 1939, and it is estimated that by 1965 this will have increased to \$50 billion.

One of the biggest booms in the home appliance field has been in television. Fifteen years ago it was unknown commercially, but today, 70 percent of the nation's homes have TV sets, and nearly 36 million receivers have been sold. However, the advent of color TV may make all of these receivers obsolete, and consequently open up a still more lucrative market.

A dramatic stride has also taken place in room air conditioners—a potential market that has scarcely been penetrated. First introduced commercially in 1946, over one million units were sold in 1954 alone. Today less than 6 percent of all homes are air-conditioned, but it is estimated that by 1965, 60 percent will be.

With the introduction of so many new and different appliances in such a short period of time, and faced by the fact that each new product has a tendency to make the old obsolescent, the consumer might well wonder if he is better off in buying the new product or in waiting for the yet-undeveloped gadget of tomorrow.

### Development in Illinois

Illinois has played an important role in the creation of the home appliance industry. Many of the forerunners of our present-day appliances were first developed within the State during the early 1900's. For the most part, early progress was closely linked with the development and the availability of electric power.

In 1906, Edward N. Hurley designed and built the first electric washing machine in a Cicero loft building. From this humble beginning grew the present-day Thor Corporation, which later introduced the country's first combination clothes and dish-washing machine, and the foldaway electric ironer.

Three years after the introduction of the electric washing machine the first practical dishwasher was made by George Walker, a Chicagoan. At about the same time, George A. Hughes put together the world's first electric stove and subsequently merged with Hotpoint, now the largest electric range manufacturer in the world. Walker's dishwasher was developed further by Hotpoint, and in 1940 the first all-electric dishwasher was produced. In addition to ranges and dishwashers, Hotpoint also produces automatic washers and dryers, refrigerators, freezers, air conditioners, and many other electrical home appliances.

The invention of the audion—the three-element vacuum tube—in 1900 enabled Chicago to claim to be the "birthplace" of the electronics industry. Though difficult to gauge in size, the Chicago area electronics industry is the largest in the world, and a good portion of it is devoted to the manufacture of radio and television sets. Among the many Illinois firms producing radio and TV sets are Admiral, Hallicrafters, Motorola, Raytheon, and Zenith.

Many other Illinois companies produce various home appliance lines. Sunbeam Corporation began manufacturing an electric iron in 1910, but it is perhaps best known for the invention of the Mixmaster in 1930. McGraw Electric Company commenced manufacturing toasters in 1937 and the name Toastmaster has become a famous trademark. The Mitchell Manufacturing Company is the largest manufacturer of room air conditioners and was one of the first in this field. Other well-known Illinois companies are Dormeyer, International Harvester, Fairbanks-Morse, Cory, Deep-freeze, Altorfer, and Roper, to name but a few. Of the 150 firms manufacturing appliances in the State, more than 100 are located within the Chicago area, with others in Bloomington, Danville, Effingham, Geneva, Freeport, Peoria, and Rockford.

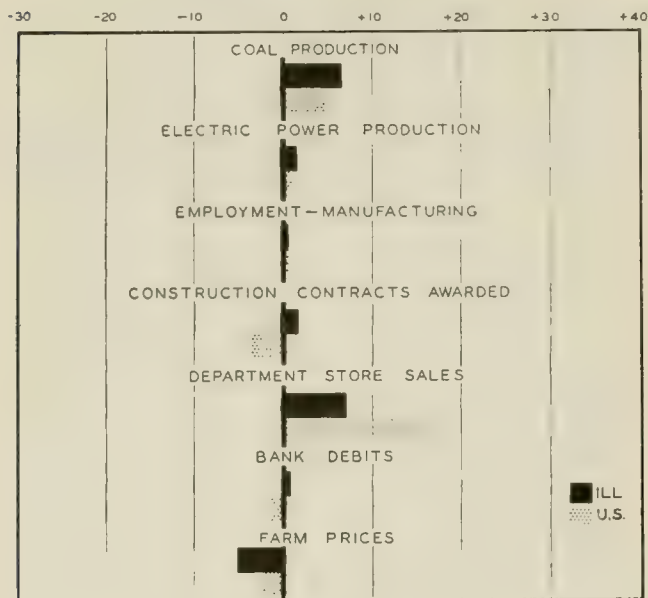
In the past few years, the Illinois household appliance industry has become a giant, producing over 50 different types of appliances with an annual value of approximately \$500 million. Even so, the potential market for many appliances has scarcely been penetrated, and there is a large future market for goods that have not yet been developed. As such, the industry appears to have a high growth potential, with Illinois firms continuing to produce nearly every type of home appliance.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes October, 1955, to November, 1955



## ILLINOIS BUSINESS INDEXES

Item	November 1955 (1947-49 = 100)	Percentage Change from	
		Oct. 1955	Nov. 1954
Electric power <sup>1</sup> .....	208.0	+1.4	+ 9.6
Coal production <sup>2</sup> .....	88.0	+6.5	- 2.3
Employment—manufacturing <sup>3</sup> ..	109.0	+0.4	+ 7.3
Weekly earnings—manufacturing <sup>3</sup>	149.2 <sup>a</sup>	+1.2	+11.2
Dept. store sales in Chicago <sup>4</sup> ....	112.0 <sup>b</sup>	-5.1	+ 7.7
Consumer prices in Chicago <sup>5</sup> .....	119.1	+0.1	+ 1.3
Construction contracts awarded <sup>6</sup>	245.9	+1.5	+39.1
Bank debits <sup>7</sup> .....	158.8	+0.7	+ 8.8
Farm prices <sup>8</sup> .....	71.0 <sup>c</sup>	-5.3	-16.5
Life insurance sales (ordinary) <sup>9</sup> ..	203.8	+2.7	+15.0
Petroleum production <sup>10</sup> .....	126.6	-4.2	+14.8

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.  
<sup>a</sup> October data; comparisons relate to September, 1955, and October, 1954. <sup>b</sup> Seasonally adjusted. <sup>c</sup> Revised series.

## UNITED STATES MONTHLY INDEXES

Item	November 1955	Percentage Change from	
		Oct. 1955	Nov. 1954
	Annual rate in billion \$		
Personal income <sup>1</sup> .....	311.4 <sup>a</sup>	+ 0.7	+ 7.1
Manufacturing <sup>1</sup> .....			
Sales.....	328.8 <sup>a</sup>	+ 2.6	+14.2
Inventories.....	45.6 <sup>a, b</sup>	+ 0.7	+ 5.3
New construction activity <sup>1</sup>			
Private residential.....	16.5	- 5.6	+ 6.3
Private nonresidential.....	14.5	- 4.6	+13.6
Total public.....	11.8	-16.5	+ 1.4
Foreign trade <sup>1</sup>			
Merchandise exports.....	16.7 <sup>c</sup>	+11.3	+10.2
Merchandise imports.....	12.1 <sup>c</sup>	+ 6.8	+32.3
Excess of exports.....	4.6 <sup>c</sup>	+25.0	-23.3
Consumer credit outstanding <sup>2</sup>			
Total credit.....	35.1 <sup>b</sup>	+ 1.2	+20.0
Installment credit.....	27.2 <sup>b</sup>	+ 1.1	+23.8
Business loans <sup>2</sup> .....	26.0 <sup>b</sup>	+ 3.5	+17.1
Cash farm income <sup>3</sup> .....	38.4	-11.1	0.0
	Indexes (1947-49 =100)		
Industrial production <sup>2</sup>			
Combined index.....	144 <sup>a</sup>	+ 0.7	+12.5
Durable manufactures.....	163 <sup>a</sup>	+ 0.6	+14.8
Nondurable manufactures.....	129 <sup>a</sup>	+ 0.8	+ 9.3
Minerals.....	125 <sup>a</sup>	+ 2.5	+10.6
Manufacturing employment <sup>4</sup>			
Production workers.....	109 <sup>a</sup>	+ 1.4	+ 7.1
Factory worker earnings <sup>4</sup>			
Average hours worked.....	103	+ 0.2	+ 2.5
Average hourly earnings.....	145	+ 1.0	+ 5.5
Average weekly earnings.....	150	+ 1.3	+ 8.1
Construction contracts awarded <sup>5</sup>	235	- 3.5	+19.9
Department store sales <sup>2</sup> .....	123 <sup>a</sup>	+ 0.8	+ 8.8
Consumers' price index <sup>4</sup> .....	115	+ 0.1	+ 0.3
Wholesale prices <sup>4</sup>			
All commodities.....	111	- 0.4	+ 1.1
Farm products.....	84	- 3.1	- 9.8
Foods.....	99	- 1.4	- 4.8
Other.....	119	+ 0.3	+ 3.9
Farm prices <sup>3</sup>			
Received by farmers.....	83	- 2.4	- 6.7
Paid by farmers.....	112	0.0	0.0
Parity ratio.....	81 <sup>d</sup>	- 1.2	- 6.9

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for October, 1955; comparisons relate to September, 1955, and October, 1954. <sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1955					
	Dec. 31	Dec. 24	Dec. 17	Dec. 10	Dec. 3	Jan. 1
Production:						
Bituminous coal (daily avg.).....thous. of short tons..	1,820	1,846	1,750	1,803	1,730	1,486
Electric power by utilities.....mil. of kw-hr.....	10,751	11,614	11,602	11,426	11,359	9,425
Motor vehicles (Wards).....number in thous.....	119	170	196	206	206	142
Petroleum (daily avg.).....thous. bbl.....	6,987	6,992	6,946	6,923	6,836	6,343
Steel.....1947-49 = 100.....	134	136	141	140	137	107
Freight carloadings.....thous. of cars.....	575	672	715	727	728	529
Department store sales.....1947-49 = 100.....	89	231	255	235	197	80
Commodity prices, wholesale:						
All commodities.....1947-49 = 100.....	111.4	111.2	111.1	111.1	111.1	109.5 <sup>a</sup>
Other than farm products and foods.....1947-49 = 100.....	119.5	119.5	119.5	119.4	119.2	114.9 <sup>a</sup>
22 commodities.....1947-49 = 100.....	89.9	89.9	89.2	89.6	89.0	90.2
Finance:						
Business loans.....mil. of dol.....	26,701	26,627	26,317	26,117	26,014	22,423
Failures, industrial and commercial.....number.....	174	181	247	219	209	152

Source: Survey of Current Business, Weekly Supplements.

<sup>a</sup> Monthly index for December, 1954.



# RECENT ECONOMIC CHANGES

## Price Averages Steady

Wholesale prices declined slightly in November for the second successive month. However, at 111.2 (1947-49 = 100) the index was still somewhat above the narrow range that prevailed from the beginning of 1953 through the first half of 1955. The current reversal of the third-quarter rise resulted from further drops in the farm products and processed foods indexes which more than offset slight advances in industrial commodity prices. Industrial prices in November were 3.5 percent above January. Most of the increase has occurred since midyear, with such commodities as rubber, metals, and paper products leading the advance.

The decline in farm prices further depressed the Department of Agriculture's parity ratio during November. The index of farm prices received declined from 225 to 223 (1910-14 = 100) whereas prices paid were steady at 279. As a result the parity ratio was off a point to 80, its lowest since September, 1940.

Rising industrial wholesale prices and declining farm prices have not carried over significantly into consumer prices. Prices of some durables, notably new cars, were increased late in the year, but the consumer price index in November was unchanged from September and August and was only 0.6 percent higher than in January. The steadiness has been due to offsetting components in the index. Rental rates continued upward throughout 1955. Apparel and transportation costs, after declining through September, increased moderately in November, whereas food prices, which had risen through the first half, declined between July and November.

## Business Borrowing

The 1955 prosperity gave business loans their biggest postwar boost. In mid-December commercial, industrial,

and agricultural loans outstanding were up to \$26.3 billion, \$4.2 billion over December, 1954.

In the first half of 1954, as inventory liquidation went into full swing, loans declined more than seasonally. Later in the year, however, the recovery in activity led to a sharp, more-than-seasonal increase in loans which carried over into 1955 (see chart). No net liquidation occurred in the first half of 1955, contrary to the usual seasonal pattern, and loans in December were 20 percent above their January level despite a doubling in borrowing costs during the year.

All major industrial groups increased bank borrowing last year. Sales finance companies added \$1.3 billion to their bank debt and accounted for nearly a third of the rise in total business loans. Trade firms, the utilities, and the petroleum, coal, chemical, and rubber group also relied heavily on banks as a source of funds in 1955, with each group increasing bank borrowing by \$400 million to \$500 million during the year.

## Life Expectancy of Business Population

Businesses started early in the new year have only about a fifty-fifty chance of surviving under the same management until 1958, if the postwar experience continues. However, the survivors have an even chance of remaining in business another 5 years after that, according to a study by the Department of Commerce of the age and life expectancy of business firms since the war.

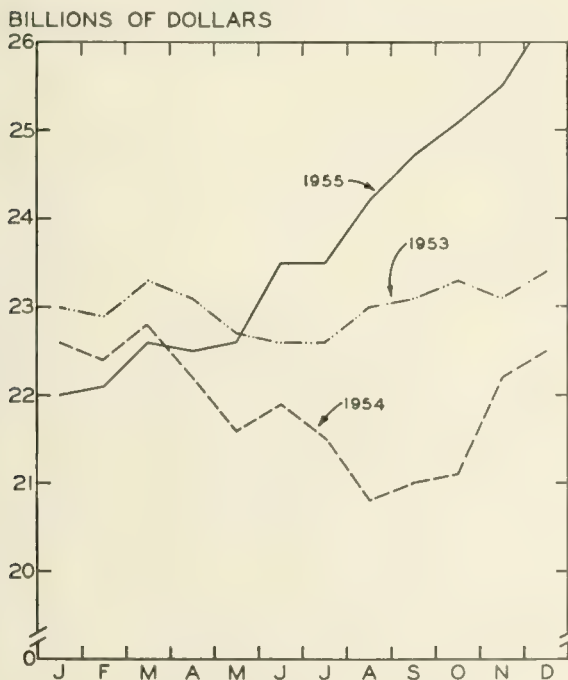
The longer a firm remains in business the better its prospects become for adding years to its life. Whereas the average newly established firm has a life expectancy of 1¾ years, those that survive to age 1 may expect to continue in operation 3 more years, and those that survive to age 2, about 5 more years. Wholesale trade businesses do considerably better than the average, having an expected life of 3¼ years at birth and of more than another 8 years at age 2. At the other extreme, retail firms are the poorest risks. Their expected life when first established is only 1½ years, and if they survive to age 2 they may expect to remain in operation an additional 4¼ years.

Reflecting the large number of firms that entered the business population in the postwar period, which more than offset mortalities in the 1945-52 period and has about equaled them since, the majority of firms in the business population are relatively young. At the end of 1954, only 31 percent of the 4.2 million firms in the business population had been formed 10 years or more ago; and 12 percent were younger than a half year. Financial firms are the most durable, with 50 percent being over 10 years old, followed by mining and service industries with 40 percent in the older age bracket. Construction firms were the youngest of all in 1954, only 17 percent having been established more than 10 years earlier.

## Manufacturers' Sales, Orders Up

Manufacturers' sales and new orders increased in November, following moderate cutbacks in October. Seasonally adjusted sales rose 3 percent during the month to \$27.4 billion. Shipments of durables were up somewhat more than nondurable goods, with all heavy goods industries reporting gains. New orders were also up by 3 percent, to \$28.1 billion, after allowance for sea-

BUSINESS LOANS



Source: Federal Reserve Board.

sonal changes. With orders continuing to run above sales, manufacturers added further to their backlogs.

The book value of manufacturers' inventories increased by \$300 million in November to \$45.6 billion. The increase amounted to about half that in September, when sales declined, but the two-month increase was the largest since 1953. However, prices figure more strongly in the current accumulation than during 1953, when wholesale prices of industrial commodities were more stable.

## Machine Tool Ordering Brisk

Machine-tool builders' new orders reached their highest level in over four years in November. Orders zoomed from \$61 million in September to more than \$100 million in October and rose an additional \$25 million in November, a rise of more than 100 percent in two months. As shown by the chart, orders have tended upward since the fourth quarter of 1954 and in November were nearly four times their year-earlier level.

Shipments have not responded fully to the higher level of orders. They were up to \$63.5 million in November, about \$3 million above October, but still \$30 million below the monthly rate in early 1954. As a result, backlogs of unfilled orders, which have been increasing since the fourth quarter of 1954, rose to 6.7 months' work, their highest since September, 1953.

## Employment at Record

Employment in December, though it dropped seasonally by 600,000 from November, was nevertheless at a record for the month. Heavy hiring by trade firms and

post offices pushed nonfarm employment to an all-time high of 58.3 million, up 400,000 from November. This rise was more than offset by a cutback in farm jobs, as a million workers, mainly housewives and students, left the labor force in November after harvesting was completed. Census data in thousands of workers are as follows:

	Dec. 1955	Nov. 1955	Dec. 1954
Civilian labor force.....	66,600	67,205	63,526
Employment.....	64,200	64,807	60,688
Agricultural.....	5,900	6,920	5,325
Nonagricultural.....	58,300	57,887	55,363
Unemployment.....	2,400	2,398	2,838

## Housing Starts Off Further

Homebuilding continued to decline at a faster-than-seasonal rate in November. Private nonfarm housing starts totaled 89,200, slightly below November, 1954. At a seasonally adjusted annual rate of 1.2 million units, November's homebuilding was about 3 percent below September and October and the lowest rate of the year. It represented the third successive month that private starts were below year-earlier levels.

Requests for Veterans' Administration appraisals dropped back to 30,000 units, less than half the number of requests at the height of the building season and only slightly above the recession months of late 1953 and early 1954. Applications for FHA loans totaled 16,300 in November, not much higher than the 1953 lows.

## Not Much Help

(Continued from page 2)

They will nevertheless be faced with the necessity of carrying various programs through to completion, and for other reasons will have to maintain imports from us to some extent. The shift in net foreign investment may therefore temporarily provide a cushion of several billion dollars to declining business in this country.

The whole story is not told, however, by an analysis that concludes at this point. Conditions abroad are not the same as in 1947. There is no longer the same overwhelming need for goods of all kinds, requiring the use of available reserves whether they can be considered adequate or not. Other countries will undoubtedly attempt to insulate themselves from us in various ways, most of which will be discriminatory with respect to our trade. Restrictions on trade and foreign exchange, which have been eased or eliminated in the last two years, will likely be re-established. The objective of industrial countries will not only be to restrict the loss of reserves resulting from purchases here, but to maintain their exports by taking over our markets in other countries. The initial rise in our net foreign investment cannot therefore be expected to continue beyond a relatively brief interval.

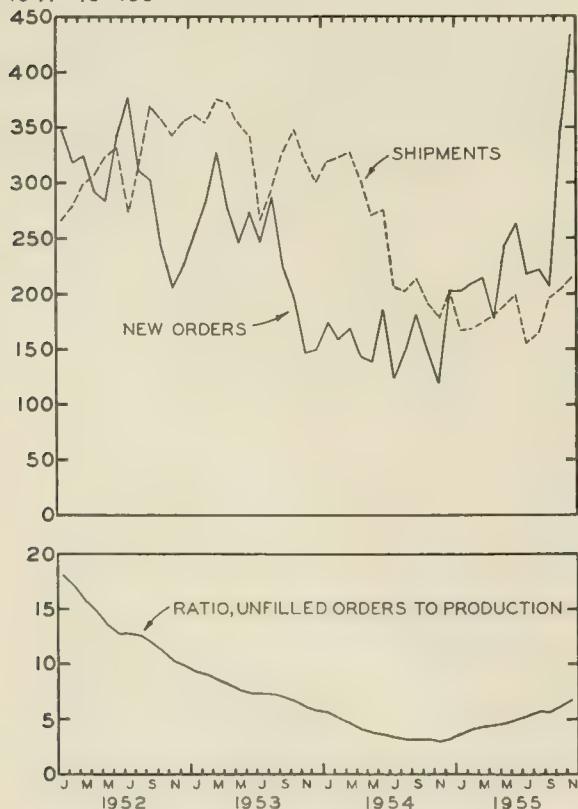
Furthermore, the support temporarily obtained from the expansion of net foreign investment will be experienced in a period of declining total trade. This loss of export markets will contribute to making capacity in some industries excessive. The reaction on domestic investment will then constitute a partial offset to the rise in net foreign investment.

Although the combined effect may well be on the plus side, the net contribution to be expected is not likely to be of sufficient magnitude to modify the course of business here substantially. It is futile to look for a life-line from abroad.

VLB

## MACHINE TOOL ACTIVITY

1947-49=100



Source: National Machine Tool Builders' Assn.



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Characteristics of Home Buyers

As more and more families continue to go into debt to purchase new homes, the financial condition of mortgagors becomes increasingly significant to studies of economic stability. Recently published by the Departments of Labor and Commerce are figures summarizing the position of persons buying homes with FHA mortgages.

#### Financial Characteristics of Persons Buying New Homes with FHA (203) Mortgages

	1949	1954	Percent change
Mortgagor's income.....	\$3,880	\$5,139	+32.4
Property value.....	\$8,502	\$10,678	+25.6
Mortgage amount.....	\$7,143	\$8,862	+24.1
Loan-value ratio.....	87.3%	85.3%	- 2.3
Mortgage term (years)...	22.8	22.9	+ 0.4
Monthly mortgage payment.....	\$55.59	\$68.62	+23.4
Median number of rooms	4.9	5.4	+10.2

Source: *Construction Review*, November, 1955.

Although the median mortgage and the median monthly payment increased 25 percent in five years, income rose even faster. The typical mortgagor, then, is seemingly more capable of carrying the burden of his mortgage than he was in 1949 (assuming that he has not increased his other obligations more than correspondingly). Further evidence of this is shown by the decline in the loan-value ratio.

The rise in monthly mortgage payments was only slightly greater than the general rise in rents, 22.4 percent between 1949 and 1954. That it is larger at all is probably a result of the trend toward homes larger than those built in the early postwar rush, since construction costs have not outrun other housing costs.

### For the Home

With a new product by the Glidden Company of Cleveland, Ohio, it is possible to paint tweed walls. Available in a combination of yellow, gray, and white, the chemical suspension of the colors is such that they will not mix even though applied with a single spray. Different tweed tones are obtained through varying the background color, since the three-color application is designed to cover only about one-third of the surface. The size of the color particles can also be determined by adjusting the air and fluid pressures in the spray gun. Called Glid-TEX, the coating may be used on woodwork, masonite surfaces, and painted surfaces.

Space-saving appliances are now being manufactured by Nutone, Inc., Madison and Redbank Roads, Cincinnati 27. Using a single 300-watt motor, they have designed a combination electric mixer, food blender, and knife sharpener. The unit not only takes up less space than the three appliances would separately but also costs substantially less, \$59.95 for the combination.

Kling-Kote Liquid Cloth is now available for mending cloth, rubber, plastic, canvas, and leather. An elastic base material which dries translucent, waterproof, and flexible, it may be spread over the torn or worn area and it is supposed to outlast most materials to which it may be applied. It is produced by Downs and Company, 816 University Place, Evanston, Illinois, and retails at 79 cents a tube.

### Bank Charge Account Plans

A relatively new system for factoring accounts receivable is being tried in charge account bank plans. Under these plans, the bank sets up a centralized charge account department for the area which it serves, and with only a single account a consumer may buy at any store in the plan. When a charge sale is made, the store account is credited by the bank and the purchaser then owes the bank. Ability to extend credit without tying up funds and avoiding the costs of administering a charge plan are advantages of this plan.

A comprehensive study of such plans already in use and recommendations for possible improvements have been made by Professor Robert H. Cole of the University of Illinois Department of Marketing. Titled *Financing Retail Credit Sales Through Charge Account Bank Plans*, the publication is available from the Bureau of Business Management, College of Commerce and Business Administration, University of Illinois, Urbana, for \$1.00.

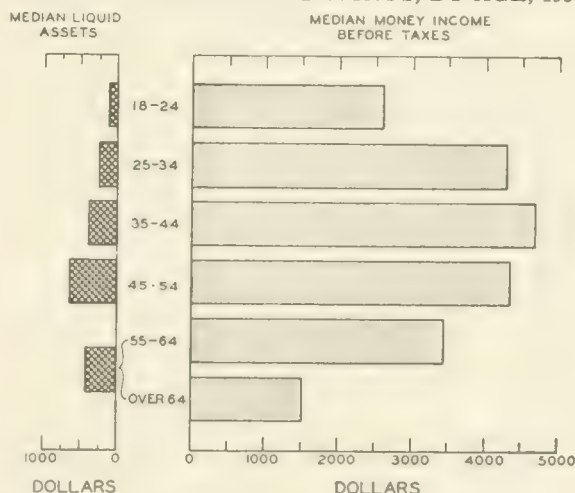
### Age and Spending

Economic needs, abilities, and motivations vary widely with age, according to an article in the November *Monthly Labor Review*. As a result the patterns of consumer spending and saving and their influence on the total economy are affected by changing age distribution of the population.

Both income and liquid assets held are distributed in a fairly normal pattern, as may be seen in the accompanying chart. Median income in 1954 rose to a high of \$4,688 for the age group between 35 and 44. Even though income tends to drop off in older age groups, liquid assets are built up further in preparation for the drain placed on savings after retirement.

The purposes of saving and dissaving follow a regular pattern from the time of establishing a family to preparing for retirement. Setting up housekeeping, which often requires purchasing a home and needed equipment, is generally the first objective. Investment in a business is also largest in the earlier years. Provision for children is a problem more of the middle years, and preparation for retirement is the last purpose in the saving cycle.

FAMILY INCOME AND SAVINGS, BY AGE, 1954



Source: *Monthly Labor Review*, November, 1955.

# AUTOMATA IN PRODUCTION AND MANAGEMENT

A. H. TAUB, Digital Computer Laboratory

An automaton is a device capable of executing a set of instructions without human intervention after it first starts. The sequence in which the instructions or orders are carried out may be predetermined or may be determined by the device itself. Apart from the need for maintenance and repair, such devices may be capable of operating indefinitely without supervision or control by human operators.

If such objects are to be useful and versatile they must be composed of elements which have the following four distinct functional duties, though these need not be physically distinct: (1) remembering a list of instructions, (2) controlling the execution of an individual instruction, (3) executing the instruction, (4) communicating with the outside through media for transmitting information. The parts of an automaton performing these duties are sometimes called the memory, the control, the operating unit, and the input-output, respectively. In a particular device a single part may perform more than one duty or a fraction of a duty.

## How Automata Operate

Automata are playing a greater and greater role in the factory, office, laboratory, home, and recreation parlor. One example of an automaton is an up-to-date juke box that will play a number of selected records on the insertion of one or more coins. The following description of how such a machine might work is given to illustrate the functions of the various parts.

The machine is activated by inserting a coin. The input of instructions is accomplished by depressing various buttons which in turn instruct the machine to play a sequence of particular records. This information is remembered by the machine. The *memory* mechanism may consist of any one of a number of devices, for example a stop on the shaft on which the playing arm of the phonograph (the *operating unit*) travels. The *control* of the juke box may instruct the playing arm to move to a stop; when contact is made at the stop the control senses this and tells the operating mechanism to move the corresponding record to a playing position. The control senses that this has been accomplished and moves the playing arm to contact with the record. The *output*, the speaker of the juke box, is then activated—sound comes out. When the record is finished, the control senses this and repeats the former instructions. If no further stop is found, the control turns the box off.

A digital computer is also composed of the four organs: memory, control, operating (computing) unit, and input-output. The memory has to be rather extensive if the computer is to be useful and do complicated things, because computers are so fast that if they are not given a relatively large batch of instructions at once they will spend more time in communicating with the outside than in doing useful work.

The input device of a computer is something which can sense and distinguish between different marks on a recording medium, such as a sequence of holes in a paper tape or in a set of cards or the magnetization of a magnetic tape. The output device may be a typewriter, or a device for writing on the same kind of medium used as the input. The latter ability enables the computer to "talk to itself" or to other computers capable of reading the same kind of input.

The instructions to a computer consist of statements such as these: Multiply the number at place A by the number at place B and put the result at place C; then go to place D for your next instruction.

An automaton such as a computer is a simple-minded thing. It does a relatively small number of things but does them well and quickly. Thus the vocabulary of most computers, the list of orders it can execute, is rarely over 100 different elementary orders. Nevertheless it can do each of them in less than a thousandth of a second (some a hundred times faster) and rarely get tired.

In spite of the limitation on number of operations, computers can be used effectively in solving abstruse mathematical problems. This is so because these problems can be broken down into a sequence of orders that the computer can execute. The sequence of orders carried out by the computer is not necessarily predetermined, but where choices of action are involved, the course of action corresponding to each choice must be predetermined. For example, the list of instructions of most computers usually contains an instruction such as this: If the number in place A is zero or positive, take the following instruction as your next one. If the number in A is negative, go to place B for your next instruction. By use of such instructions, the computer can make decisions as to what to do as the computation progresses based on the results of the earlier computations. Thus computers can control their own actions (within the prescribed limits).

## Automata in the Factory

Such devices can, of course, in conjunction with other machines, control a very complicated manufacturing process. Thus, work going on at place A may refer to a place B where the number giving the difference between the size of a piece of metal being machined and the size of a standard finished part may be recorded. When this difference first becomes zero the next instruction placed at B may tell the machine to stop and then move another piece of metal to place A and start machining again.

As enterprises become larger and more complex, of necessity the role assigned to workers becomes one in which each must perform relatively routine operations for at least two reasons: Each worker is involved with a small part of a complicated whole and that part, to fit with the others, must meet rigid specifications, which may be beyond the sensory perceptions of unaided human beings. Because the accuracy requirements are so great, other devices than human senses as such are needed to see whether or not the designer's instructions have been carried out. Moreover, judgment often cannot be intelligently exercised on a small part of a complex whole. Hence, in the factories of mass-production industries, the role that humans play is merely one of guiding and controlling various tools with little room for the exercise of judgment and decision-making.

These requirements of mass production are such that the use of workers as humans, that is as decision-makers or judges of courses of action, is on the wane in the factory. The decisions that have to be made in many cases have to be reduced to such elementary ones that automata can make them better and therefore replace humans. An illustration of this is reported in the Decem-



ber, 1955, *Popular Mechanics Magazine* (page 95) in an article entitled "Tape Recording Guides Milling Machine." An engineer prepares instructions for a computer which in turn prepares precise time and motion orders for the milling machine and records these on magnetic tape. This tape is then used to control the machine, which makes all the cuts necessary to turn out panels for jet planes. In this case the output of one automaton (a computer) controls another (the milling machine) and the milling machine operator is dispensed with.

The use of automata is sometimes dictated by the requirements of the job. Thus the surface of the face of a color television tube requires the placing of various different materials on a piece of glass so accurately that only a machine can perform this task. Another example comes from the atomic laboratory. Dealing with radioactive material is sometimes so dangerous that very elaborate automata must be used.

## Automata in the Office

The use of humans is not only on the wane in the factory but also in the office associated with a large industry. The reasons are similar in both places. The size of the organization necessitates handling a large amount of data, which must be fragmented and subsequently reassembled in many different forms. Because of the mass of work, various jobs become particularized and individuals are assigned specific and menial tasks. A well-run office has many people in it, each doing well-spelled-out things and consulting the office manager only in exceptional cases. The latter are rare if the office manager is a good one, for too many special cases means that the categorization of the work has not been done properly. If the office manager is a good one, a worker who "finds" too many special cases soon has to find another job.

The important point is that because of the volume of work that has to be done in managing a large organization, the work done by a large proportion of the individual workers employed in the office is of necessity not work which uses them as humans, that is as decision-makers and judges of courses of action. Their job is summarized by statements such as: If this and that, then do so-and-so. Their role is simply to see if a premise is satisfied and if one is to do prescribed things.

Automata such as electronic digital computers can do these things better than humans in the office as well as in the factory. This presupposes that the premises have been completely listed and the courses of action completely laid out. However, computers can choose between various prescribed contingencies and determine the sequence of carrying out a preset list of instructions without human intervention. They can even be made to call for the office manager if something unforeseen happens.

Automatic computers have been used extensively by organizations such as the General Electric Company as aids in day-to-day record keeping. Payrolls are prepared, inventories kept, and a multitude of other tasks efficiently carried out. Sears, Roebuck has found that an automatic computer more than pays its way in the running of a mail-order house. The Bureau of the Census, which has one of the largest data-handling jobs in the country, has made extensive use of electronic computers and has thereby speeded up its operations greatly.

Since computers can read data from magnetic tapes at speeds of thousands of alphanumeric characters per second and do more than a thousand multiplications per second it is clear that such a machine can replace a great

number of people sitting at desk computers and accomplish an assigned task in less time.

## On the Policy Front

The use of automata in production and management is thus a natural extension of the process set in motion when large-scale precise handling of a multitude of objects or items of information is required. In many cases much of the work in organizing the job that the automaton has to do has already been done in fragmenting the main task into a multitude of individual tasks.

In both production and management there are many problems which do not lend themselves to ready analysis and involve judgments and decision-making that are far from rudimentary. Here too, automata can play an important role. The reason is that in many cases the decision has to be based on a vast amount of information which must first be organized. Computers can process the required data and prepare analyses of it faster than humans. Thus, with the use of computers, decisions can be based on more up-to-date data than heretofore.

Computers can also be used to explore certain hypothetical contingencies whose consequences are not immediately apparent and thus help in choosing between various possible courses of action. For example, even though it may be known precisely how one factor affects others in an interrelated complex organization, the system may be so complex that many weeks of computation by humans are needed before all the consequences are explored. Nevertheless decisions have to be made before any long-drawn-out computation can be completed. In such a case the computer can play a great role.

The Quartermaster Corps of the Army uses the SEAC, the electronic computer at the National Bureau of Standards, to help in awarding various contracts. The computer calculates the optimum allocations to be awarded to various bidders who are located in various parts of the country and in turn supply various depots in this country and even abroad. A great number of factors, such as substitute items, shipping costs, and states of inventory, are treated simultaneously and interrelated in the computations. Many other organizations are using computers in conjunction with the theory of linear programming—a mathematical theory for handling large systems of inequalities—in handling their logistic problems.

It seems clear that modern production and management must, because of the nature of the problems with which they are faced, go to a more extensive use of automata and that these can free us from the "inhuman" use of humans, both in the factory and in the office. Machines can also augment the powers of humans working in imaginative fields by freeing them from the drudgery of exercising known trial-and-error methods of dealing with problems, by examining consequences of various assumptions and theories once they are formulated. This is true even though they can only formulate and calculate things they are told to do.

These devices are so efficient in carrying out routine tasks, the main work of modern large-scale organizations, that problems will no doubt arise in the transition to the state where workers are used as humans throughout our offices and factories. Dislocations may occur to the extent that tasks requiring human effort do not increase fast enough to counterbalance the savings achieved by automata. Unfortunately we do not yet have the wisdom to direct and use automata to ease such dislocations or to solve other policy problems requiring procedures not yet formulated.

# LOCAL ILLINOIS DEVELOPMENTS

Illinois business in November proceeded at a brisk pace, but the strong upward movement evidenced in months past appears to have subsided. Compared with a year ago, business activity is still at a higher level, but the margin is smaller because of the generally higher levels of business toward the end of 1954. Construction was still rising, however, exceeding the year-earlier figure in November by 39 percent. Gains of about 15 percent were recorded for life insurance sales, petroleum production, business loans, and steel production.

## Booming Land Values

Since 1950 the value of farm lands and buildings in Illinois has increased 40 percent to \$242 an acre. Every county in the State registered at least some gain in the four years between the agricultural census of 1950 and that of 1954, although in some counties in the southern part of the State the gains were very small, according to figures compiled by Professor C. L. Stewart of the University of Illinois Department of Agricultural Economics.

Land values vary widely throughout the State, as may be seen in the accompanying chart. Cook County, reflecting the premium placed on land near any large city, records the highest average for the State, \$626 per acre. In Pope County, at the other end of the State, the average price of farm land in 1954 was only \$45 per acre.

In a general way land values fluctuate with the pattern of agricultural activity. The cash grain area in the

central and east central sections of Illinois includes most of the counties with a value over \$300 per acre; an average of \$383 makes this the most valuable area. The dairy and truck district surrounding Chicago ranks second with \$338 per acre. Most of the counties with values between \$200 and \$300 lie in the mixed livestock and livestock and grain areas in the northern and western portions. Moving south, land values decline as soil and climatic conditions become poorer. In the fruit and vegetable region of the southernmost counties, average prices are well below \$100.

## Aid for Local Projects

The State Health Department announced last month that eleven projects have been approved for the Federal-local grant-in-aid hospital improvement program. Additions of up to 200 beds have been approved for hospitals in Chicago, Macomb, Charleston, Canton, Woodstock, Rosiclare, Evanston, and Calumet City. Other projects include a public health center at East St. Louis and nurse-training facilities in Aurora.

The largest amount ever granted to Illinois public schools was authorized by the State Superintendent of Public Instruction in December. Claims for the 1954-55 school year rose to \$85 million, 13 percent over the preceding year. For the most part the increase resulted from the raising of the minimum level of expenditure per pupil from \$173 to \$200, with the difference between the local tax and the guaranteed level made up by State equalization payments.

## Semimonthly Pay Period

The Illinois Circuit Court, in a December ruling, upheld a twice-monthly pay period for hourly wage earners working for Illinois companies. While workers can be paid more often than this, they cannot be paid less often. This ruling applies not only to workers in the State but also to employees who live and work elsewhere if the company for which they work is an Illinois company. The Court also held that the Illinois statute supersedes collective bargaining agreements reached before the law was passed.

The ruling, which is to be appealed, was made regarding the Pullman Company, which operates sleeping cars on railroads throughout the nation. The Court also forbade the company to credit overtime hours worked in one month against hours not worked in other months; this practice lowers the base for computing overtime pay.

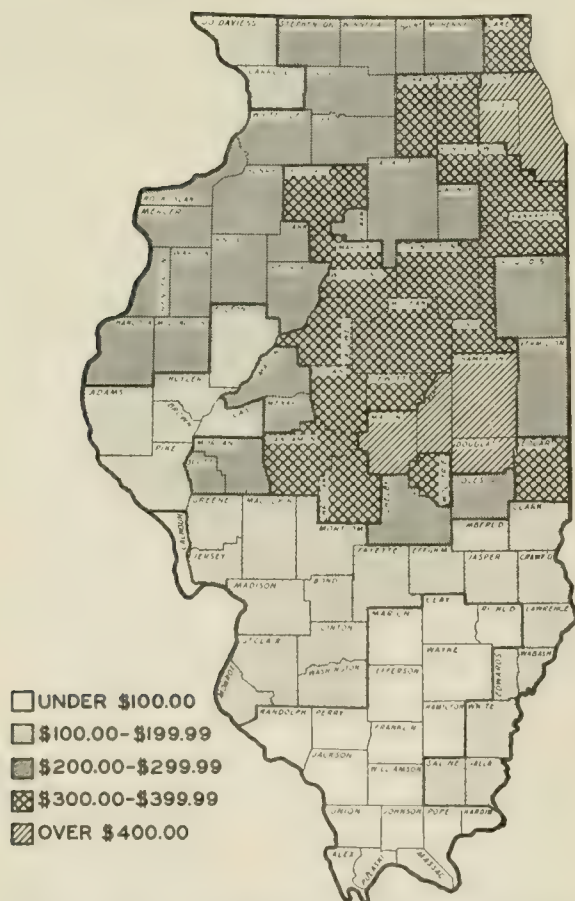
## Gas Saving

Plans to join the Eldorado gas field in Saline County with the "Big Inch" pipeline system are in process. The Jade Oil and Gas Company of Tulsa is acquiring the rights to construct lines over the five miles separating the gas field from the Big Inch of the Texas Eastern Transmission Corporation. The Jade Company has contracted to supply the main line with five million cubic feet of natural gas a day.

According to the Illinois Geological Survey more than ten times this much has been wasted daily in the oil drilling operations at Eldorado. Flares are used to burn up most of the gas as it escapes from the wells.

Although the planned gathering line joins only the Eldorado North field to the pipeline, spur lines would allow the system to be spread over the many other gas fields in the area.

FARM REAL ESTATE VALUES



Source: Data compiled by C. L. Stewart from 1954 Census of Agriculture



# COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

November, 1955

		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS.</b>		<b>\$28,074<sup>a</sup></b>	<b>1,028,359<sup>a</sup></b>			<b>\$13,878<sup>a</sup></b>	<b>\$16,993<sup>a</sup></b>
Percentage change from.....	Oct., 1955	-2.2	+1.5		+7	+0.7	+14.2
	Nov., 1954	+9.1	+9.3		+7	+8.8	+3.7
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b>		<b>\$21,362</b>	<b>778,472</b>			<b>\$12,632</b>	<b>\$15,065</b>
Percentage change from	Oct., 1955	+13.7	+1.7		+7	+1.1	+15.5
	Nov., 1954	+27.2	+8.2		+7	+8.8	+3.3
<b>Aurora</b>		<b>\$ 161</b>	n.a.			<b>\$ 59</b>	<b>\$ 124</b>
Percentage change from	Oct., 1955	-75.0			+4	+0.9	+5.2
	Nov., 1954	-27.5			+8	+22.9	+15.5
<b>Elgin</b>		<b>\$ 590</b>	n.a.			<b>\$ 35</b>	<b>\$ 137</b>
Percentage change from	Oct., 1955	+92.8			+16	-5.6	+37.4
	Nov., 1954	+62.1			+4	+5.9	+12.0
<b>Joliet</b>		<b>\$ 266</b>	n.a.			<b>\$ 74</b>	<b>\$ 92</b>
Percentage change from....	Oct., 1955	-29.3			n.a.	+3.0	-17.7
	Nov., 1954	-87.8				+16.5	-18.7
<b>Kankakee</b>		<b>\$ 309</b>	n.a.			n.a.	<b>\$ 45</b>
Percentage change from	Oct., 1955	+36.7			n.a.		+4.5
	Nov., 1954	+98.1					+7.3
<b>Rock Island-Moline</b>		<b>\$ 501</b>	<b>22,755</b>			<b>\$ 91<sup>b</sup></b>	<b>\$ 161</b>
Percentage change from....	Oct., 1955	-67.9	+5.0		n.a.	-1.7	+3.2
	Nov., 1954	-46.5	+12.7			+9.7	-6.5
<b>Rockford</b>		<b>\$1,008</b>	<b>37,653</b>			<b>\$ 162</b>	<b>\$ 207</b>
Percentage change from....	Oct., 1955	+10.0	+5.5		+9 <sup>c</sup>	+2.0	+7.6
	Nov., 1954	-15.9	+21.0		+9 <sup>c</sup>	+22.4	+5.9
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b>		<b>\$ 181</b>	<b>7,561</b>			<b>\$ 54</b>	<b>\$ 100</b>
Percentage change from	Oct., 1955	-83.5	+1.6		n.a.	-8.5	+0.4
	Nov., 1954	+182.8	+7.1			+1.1	+31.6
<b>Champaign-Urbana</b>		<b>\$ 197</b>	<b>9,928</b>			<b>\$ 62</b>	<b>\$ 106</b>
Percentage change from	Oct., 1955	-54.7	+1.7		n.a.	-11.9	-4.4
	Nov., 1954	-40.3	+5.4			+13.6	+6.2
<b>Danville</b>		<b>\$ 233</b>	<b>10,074</b>			<b>\$ 50</b>	<b>\$ 67</b>
Percentage change from.	Oct., 1955	+28.0	+2.0		+11	-5.4	+4.0
	Nov., 1954	+47.5	+3.4		+8	+13.4	+14.4
<b>Decatur</b>		<b>\$1,049</b>	<b>32,346</b>			<b>\$ 117</b>	<b>\$ 114</b>
Percentage change from....	Oct., 1955	+37.7	+4.8		-1 <sup>c</sup>	-11.5	+15.1
	Nov., 1954	+28.9	+19.8		+7 <sup>c</sup>	+5.3	+2.8
<b>Galesburg</b>		<b>\$ 246</b>	<b>8,031</b>			n.a.	<b>\$ 39</b>
Percentage change from....	Oct., 1955	-14.6	+4.5		n.a.		+11.5
	Nov., 1954	-10.2	+13.4				+2.5
<b>Peoria</b>		<b>\$1,122</b>	<b>50,298<sup>c</sup></b>			<b>\$ 219</b>	<b>\$ 296</b>
Percentage change from....	Oct., 1955	+129.9	-0.0		+11 <sup>c</sup>	-3.9	+16.0
	Nov., 1954	+42.7	+8.5		+6 <sup>c</sup>	+9.4	+15.7
<b>Quincy</b>		<b>\$ 241</b>	<b>8,520</b>			<b>\$ 39</b>	<b>\$ 69</b>
Percentage change from.	Oct., 1955	-12.7	+9.2		+8	-7.9	+2.1
	Nov., 1954	+193.9	+12.5		-4	-2.1	-2.0
<b>Springfield</b>		<b>\$ 194</b>	<b>31,814<sup>c</sup></b>			<b>\$ 109</b>	<b>\$ 221</b>
Percentage change from...	Oct., 1955	-45.2	+2.7		n.a.	-2.8	-4.3
	Nov., 1954	-80.4	+18.5			+9.2	+18.2
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b>		<b>\$ 96</b>	<b>12,018</b>			<b>\$ 136</b>	<b>\$ 61</b>
Percentage change from	Oct., 1955	-84.9	-13.7		n.a.	+1.8	-26.9
	Nov., 1954	+84.6	+7.1			-8.1	-7.0
<b>Alton</b>		<b>\$ 159</b>	<b>12,488</b>			<b>\$ 39</b>	<b>\$ 36</b>
Percentage change from	Oct., 1955	-5.8	-5.9		n.a.	+4.2	+18.7
	Nov., 1954	+67.4	+10.9			+15.3	+6.9
<b>Belleville</b>		<b>\$ 159</b>	<b>6,402</b>			n.a.	<b>\$ 53</b>
Percentage change from....	Oct., 1955	+28.2	+3.6		n.a.		+16.1
	Nov., 1954	-28.1	+7.1				+13.0

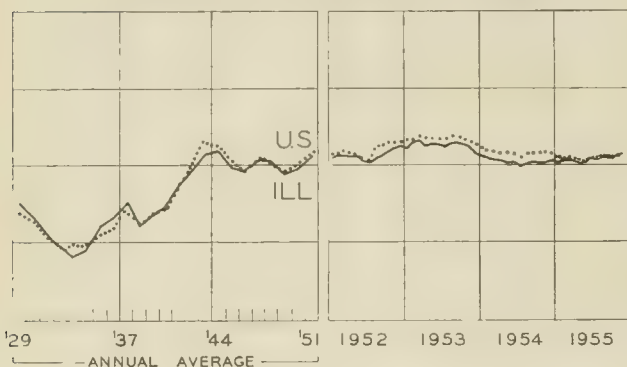
<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.

Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Data for October are not available. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

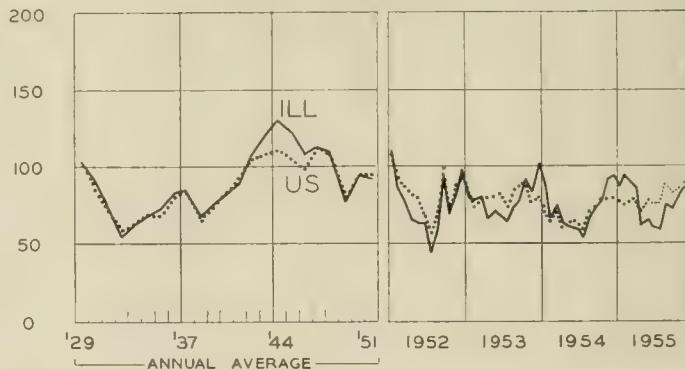
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

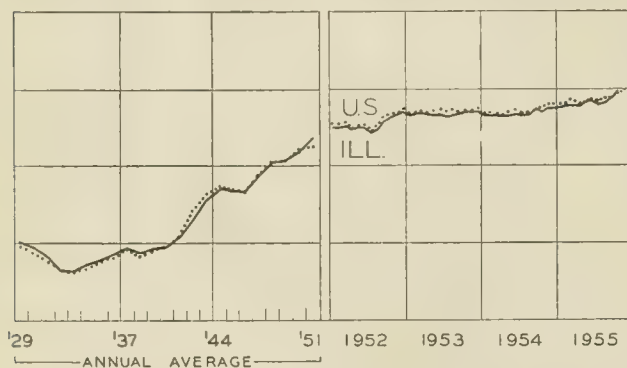
## EMPLOYMENT - MANUFACTURING



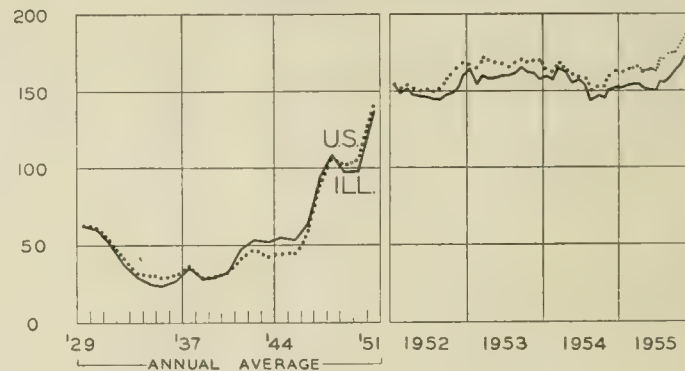
## COAL PRODUCTION



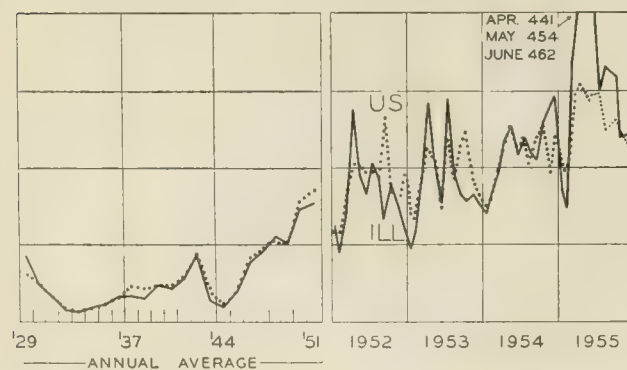
## AVG. WKLY. EARNINGS — MANUFACTURING



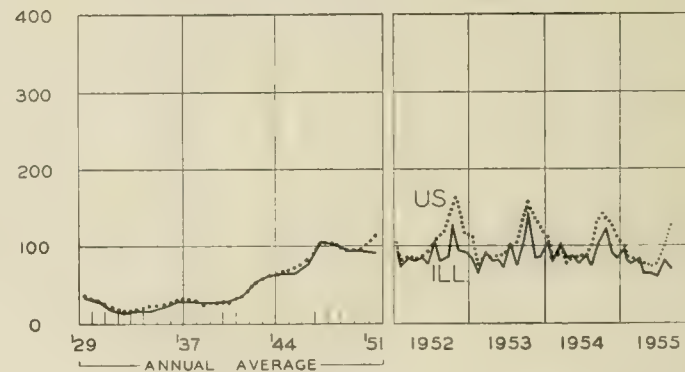
## BUSINESS LOANS



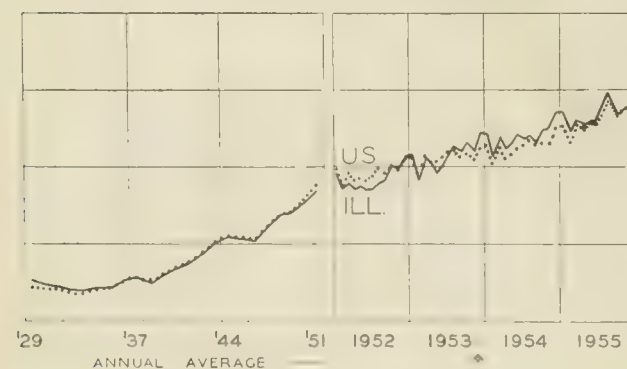
## CONSTRUCTION CONTRACTS AWARDED



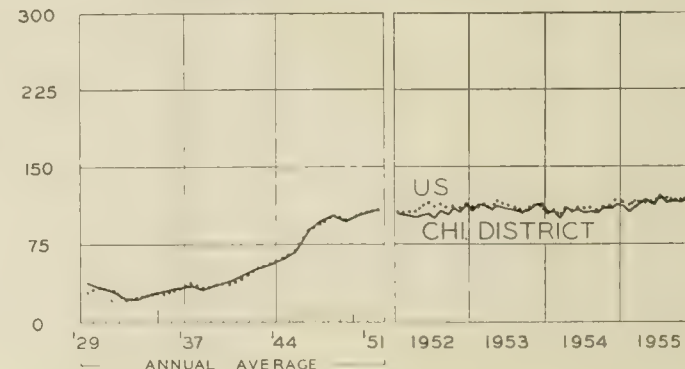
## CASH FARM INCOME



## ELECTRIC POWER PRODUCTION



## DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

## A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
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### HIGHLIGHTS OF BUSINESS IN JANUARY

The usual post-Christmas seasonal letdown combined with reduced operations in automobile and other industries contributed to a somewhat lower level of business activity in January. Nevertheless, many raw materials continued in short supply and nonfarm prices remained generally firm. Prices at the farm stiffened somewhat for meat animals and vegetables, but this was offset, so far as most farmers were concerned, by corresponding increases in prices paid by farmers. The parity ratio, the ratio of prices received by farmers to prices paid, remained at 80, six points below the level of a year ago.

For retailers January was, on the whole, another good month. Though down substantially from December's seasonal peak, department store sales were slightly above January of last year, and auto sales were about the same as last January.

#### Employment Maintained

Despite large layoffs in the automobile and various nondurable goods industries, employment in January was at a new high for the month, 62.9 million. This was 2.7 million more than last January although down seasonally by well over one million from this December's peak. Much of the reduction from December was due to seasonal declines in construction, transportation, and service trades.

The factory layoffs contributed to a seasonal rise in unemployment between December and January of about 450,000. Roughly 2.9 million were unemployed and actively seeking work in January, but this was about 13 percent less than a year earlier.

Accompanying the reduction in factory employment was a drop in the average workweek in nonfarm employment to 40.6 hours and a decline in average weekly earnings of production workers to \$78.36. Average hourly earnings, however, remained at the December figure of \$1.93.

#### Construction High

The value of new construction put in place in January set a record for the month although, like most other business indicators, it was down sharply from the previous month's level. At \$2.8 billion, construction outlays corresponded to an annual rate of \$41.5 billion on a seasonally adjusted basis. Work put in place in 1955 amounted to \$42.3 billion.

High rates of activity were reported in industrial

construction, commercial building, military construction, highways, and school building. Private homebuilding, on the other hand, registered a sharper-than-usual decline from the December level.

#### Manufacturers' Inventories Up

Manufacturers entered 1956 with \$2.5 billion more in inventories than they had a year earlier. Nearly 90 percent of the increase occurred in the holdings of durable goods producers, which aggregated \$26.2 billion at the end of the year; the corresponding figure for nondurable goods industries was \$19.8 billion. Noteworthy is the fact that nearly half of the increase in inventory holdings during 1955 was due to higher replacement costs.

Sales of manufacturers in December were near peak rates of the year, after adjustment for seasonal variations. Nevertheless, orders exceeded sales during the month by \$1.7 billion, all of the excess being in durable goods industries. As a result, unfilled orders on the books of manufacturers at the beginning of this year amounted to \$55.5 billion, \$9 billion more than at the start of 1955.

#### Antitrust Action

Several far-reaching decrees in the area of antitrust regulation were taken by the Federal government during January. Hardest hit, perhaps, was International Business Machines, which consented, among other things, to sell as well as lease its equipment, to refrain from requiring purchasers of International Business Machines to use exclusively International Business Machines punch cards or parts, and to make its patents freely available on a cross-licensing basis at reasonable rates. The American Telephone and Telegraph Company also agreed to make its patents freely available and to have Western Electric, its manufacturing subsidiary, divest itself of its operations in "unregulated" activities, principally the production of picture sound equipment and of private communications systems. In another historic action, the American Association of Advertising Agencies consented to give up its past policy of fixing advertising commission rates for the industry.

Considerable expansion of government activities in the antitrust area are called for in the proposed Federal budget for the next fiscal year (see p. 6). It is not unlikely, therefore, that actions affecting other industries will be forthcoming during the next year or so.

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## Economic Problem of the West

Last month it was pointed out that any substantial decline in business here would have repercussions abroad, involving us in differences with our competitors and customers in the Western World. It was suggested that our foreign trade would provide a moderate cushion against the decline even though their reactions would largely take forms discriminatory against our exports. It may be pointed out that such a situation would not necessarily worsen our own position over the recession as a whole. What the effect would be depends on how well the countries with whom we trade could succeed in maintaining their own incomes and employment. It may be important for us to understand the position of Western Europe in the event of such developments.

### The Boom in Western Europe

In recent years the industry of the world has forged ahead to new peaks. Without going into detail, or qualifying for various exceptions, it may be said that the countries of Western Europe have fully participated in the boom. All economic sectors contributed to a spending spree of unprecedented magnitude. Demands for production of all kinds—by business, governments, and consumers—have pushed activity to a state of full employment, and in some cases of over-full employment.

Although the boom has been general, its specific driving force as new peaks were achieved has been the expansion of private investment. The drive for expansion was born in the need for reconstruction and was aggravated by military and other government programs. Pre-war levels had generally been recovered by 1950, and by the end of 1953, cold war and Korean needs were no longer imposing intense pressures. Then, investment began to forge ahead on its own momentum. Persistent efforts had been made to foster capital accumulation at the expense of consumption, but hopes and expectations were surpassed in the unprecedented surge of business investment in new plant and equipment. From 1953 to 1955, industrial building in Great Britain approximately doubled, and demand for equipment rose correspondingly.

Credit was freely used as a means of financing purchases. Resort to credit is the normal procedure for businesses seeking capital to expand their capacity and operations. Credit was also used to some extent to pro-

mote export sales. A comparatively new development in Europe was the use of credit to finance consumer purchases, particularly of durable goods, as in this country. This use of consumer credit to anticipate future income has no doubt made a contribution to the recent rate of growth, but it is likely to make an even greater contribution to instability.

The upswing was accompanied by a strong surge in business confidence, fostered by soaring profits and encouraged by the adoption of conservative policies in most countries. Optimism helped the boom to build on itself. It combined with fear of inflation to produce some forward buying, further exaggerating the pace of expenditure. Although finished product prices remained relatively stable, inflationary pressures were experienced in the area of industrial costs, with wage rates and prices of industrial materials perceptibly moving up.

These symptoms of an exaggerated boom gave rise to some uneasiness in official circles, but there were also departures from the typical pattern to provide an appearance of solid progress. Both the comparative stability of prices and the continued accumulation of gold and dollar reserves could be cited as evidence that the danger point had not been reached. The monetary authorities therefore followed a "wait and see" policy. They were fearful of inflation but hesitated to call a halt. There was little real restraint in the mild measures of "disinflation" imposed, which were deliberately designed to stop short of stimulating fears that a real slump might occur.

### Beyond the Point of Stabilization

Looking at the European situation in broad terms, it is not unlike the situation here. The boom has progressed beyond the point of stabilization. It appears to be moving toward a climax, building elements of instability and weakness as it progresses. The symptoms of inflationary pressure in themselves provide no assurance that the pace of the advance can be kept up. The expansion has been built on the advance in total markets, including export markets, and when that advance slows, the need for expansion will diminish.

In this investment boom, the mechanism of the business cycle is performing in typical fashion. It works beautifully on the upswing, but in the enthusiasm of new highs, there is a tendency to forget that it works with equal vigor, if not so pleasantly, on the decline. What tends to be forgotten is that once the cycle has reached the peak, efforts to prevent surpluses from developing bring on the setback. At that point, accumulation can only be halted by cutting production, and surpluses can only begin to be worked off after recession has progressed more than just a little. In other words, there is a definite need to slow down; but it is impossible to slow down without going into reverse.

The fact that the European economies have not progressed to the same degree of market saturation as ours is cited as assurance against such a development. Although their unsatisfied needs are potentially greater, needs alone do not determine the degree of market saturation in the sense in which that factor represents a force in the business cycle. True, they have less! But their markets reach an equivalent saturation with less, because given their resources, their production capabilities, and their income distribution, they can afford less.

Signs of weakness are not immediately apparent, and it is not intended to argue here that a collapse is im-

(Continued on page 8)



## VERSATILE PLASTICS

Fifty years ago the possibility of developing chemical products more flexible than rubber or stronger than steel would have seemed in the realm of science fiction. Yet this has already been accomplished with the advent of plastics. Technically, plastics are highly complex chemical compounds which can be formed into various shapes and designs. However, there is a great variety of plastic substances, and the industry is new enough that many of their potentialities have not yet been determined.

### Types of Plastics

The four principal types of plastics are natural resins, synthetic resins, cellulose derivatives, and protein substances.

Natural resins, such as asphalt, pitch, rosin, and shellac, are common substances used in the industry for the production of fusible types of molded products. They are used extensively in the manufacture of insulators, records, and for protective coatings.

Synthetic resin plastics are developed from such raw materials as coal and petroleum, through such intermediate channels as phenol, formaldehyde, glycerol, and acetylene. They are used extensively in the manufacture of electrical and automotive parts, containers, kitchenware, and costume accessories.

Among the leading materials produced by the plastics industry are the cellulose derivatives which are made primarily from wood cellulose or cotton linters treated with acids or other chemical solutions. Their principal uses include toys, film, safety glass, cabinets for radios and TV sets, jewelry, artificial leather, and lacquers.

Skimmed milk and soybeans are the primary sources of protein plastics. Casein, produced from milk, has a rather limited use and is primarily confined to the manufacture of ornaments, artificial wool, novelties, and buttons. Soybean meal, however, has been promoted by the Ford Motor Company, and many car accessories are produced from it.

### Development

The first plastic, cellulose nitrate, was discovered in 1833 by a French chemist, but it was not until 1868 that it was put to practical use. While trying to find a substitute for ivory, John Wesley Hyatt, of Albany, New York, mixed it with camphor and created celluloid, the first commercially accepted plastic. It was employed in many uses, including the making of collars and cuffs, dentures, and early automobile windows.

In 1909, Dr. L. H. Baekeland developed the phenolic resins, from which Bakelite is derived. The phenolic plastics are the foundation of the plastics molding industry, and have completely revolutionized the paint and varnish industry. Many of the most widely used plastics have been discovered only within the past twenty years; this is also true of many products of related characteristics, such as nylon and polystyrene (introduced in 1938); dacron, orlon, and polyethylene (1942); and the silicones (1943).

### The Industry

There are four major groups of firms which constitute the plastics industry: raw material manufacturers, molders, fabricators, and laminators.

The raw materials producers turn out plastic in seven major forms. Basic compounds made in flake, granular, and powder form are used by the molders who press them into finished products; rods, sheets, and tubes of plastic are turned into industrial or consumer items by the fabricators through machine processing; and liquid adhesives or resins are used by laminators to impregnate cloth, paper, and wood, or to bond glass fibers.

Production of raw materials is primarily limited to the major chemical companies because of the complex chemical nature of the plastics. In 1953 there were approximately 140 producers of raw materials employing 43,000 persons and shipping products valued at nearly \$1.5 billion, compared with 1947, when 125 firms, employing 29,300 persons, shipped products valued at only a little over half a billion dollars.

The development of plastics has brought about the establishment of hundreds of enterprises engaged in the production of plastic products. In addition to molders, fabricators, and laminators, who together number over 3,000, there are many other important groups, such as textile operators and glassmakers, which are closely affiliated with the industry.

### Illinois — Production Center

Illinois firms manufacture more plastic products than those of any other state in the nation. The output of the Chicago area alone, based on volume of raw materials consumed or on value of finished products, amounts to approximately 35 percent of the entire United States total.

There are several raw material manufacturers located within the State, such as the Sherwin-Williams plant at Roseland and Glidden's liquid resin plant in northeast Chicago. However, the State's claim to leadership in the plastics industry is based on its numerous processors.

The Chicago area has produced some giants in this field. The American Phenolic Corporation, the world's largest supplier of plastic components to the electronics industry, the Chicago Molded Products Corporation, the Molded Products Division of Admiral Corporation, Mills Plastic Division of Continental Can, Richardson Company, and the Santay Corporation are only a few of the 500 firms located within the Chicago area that have contributed to the State's leadership in the plastics field. Other producers are located at Decatur, Elgin, Freeport, Georgetown, Paris, Peoria, Plano, Rockford, Tuscola, and Woodstock.

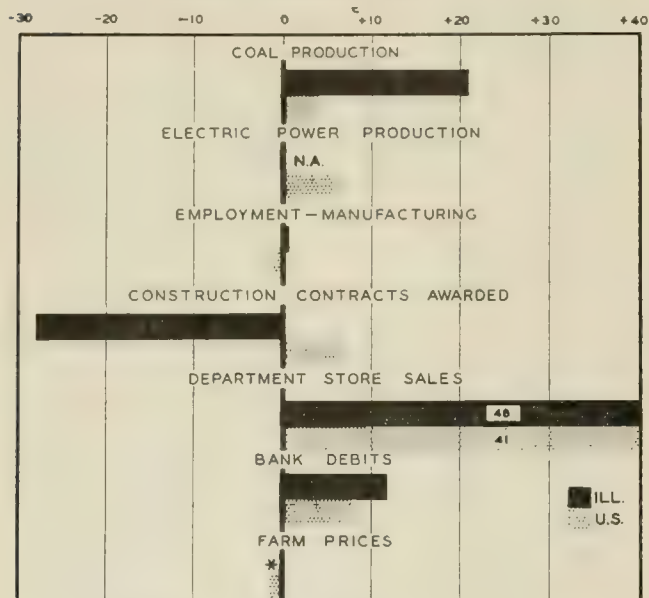
Illinois, with its many molding and fabricating plants and its large array of plastic products, has aided in opening up new vistas of opportunity. With the development of newer products and processes of creative chemistry, Illinois will continue to play a leading role in the multi-billion dollar plastics industry.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes November, 1955, to December, 1955



\* No change. N.A. Not available.

## ILLINOIS BUSINESS INDEXES

Item	December 1955 (1947-49 = 100)	Percentage Change from	
		Nov. 1955	Dec. 1954
Electric power <sup>1</sup> .....	223.9	+ 7.6	+ 9.7
Coal production <sup>2</sup> .....	106.3	+20.8	+12.8
Employment—manufacturing <sup>3</sup> .....	109.0	+ 0.3	+ 6.9
Weekly earnings—manufacturing <sup>3</sup> .....	149.3 <sup>a</sup>	+ 0.1	+ 9.5
Dept. store sales in Chicago <sup>4</sup> .....	115.0 <sup>b</sup>	+ 2.7	+ 7.5
Consumer prices in Chicago <sup>5</sup> .....	118.5	- 0.5	+ 1.3
Construction contracts awarded <sup>6</sup> .....	176.8	-28.1	- 8.2
Bank debits <sup>7</sup> .....	177.4	+11.7	+ 4.2
Farm prices <sup>8</sup> .....	71.0 <sup>c</sup>	0.0	-14.5
Life insurance sales (ordinary) <sup>9</sup> .....	250.5	+23.0	+29.0
Petroleum production <sup>10</sup> .....	129.6	+ 2.4	+12.4

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.

<sup>a</sup> November data; comparisons relate to October, 1955, and November, 1954. <sup>b</sup> Seasonally adjusted. <sup>c</sup> Revised series.

## UNITED STATES MONTHLY INDEXES

Item	December 1955	Percentage Change from	
		Nov. 1955	Dec. 1954
	Annual rate in billion \$		
Personal income <sup>1</sup> .....	315.0 <sup>a</sup>	+ 1.0	+ 7.4
Manufacturing <sup>1</sup> .....			
Sales.....	327.6 <sup>a</sup>	0.0	+13.3
Inventories.....	45.9 <sup>a, b</sup>	+ 0.4	+ 6.0
New construction activity <sup>1</sup> .....			
Private residential.....	15.4	- 9.8	+ 2.0
Private nonresidential.....	13.5	- 6.9	+12.1
Total public.....	9.2	-22.1	- 7.5
Foreign trade <sup>1</sup> .....			
Merchandise exports.....	15.7 <sup>c</sup>	- 6.2	+ 4.7
Merchandise imports.....	12.8 <sup>c</sup>	+ 5.4	+26.8
Excess of exports.....	2.9 <sup>c</sup>	-36.7	-40.5
Consumer credit outstanding <sup>2</sup> .....			
Total credit.....	36.2 <sup>b</sup>	+ 3.3	+20.2
Installment credit.....	27.9 <sup>b</sup>	+ 2.4	+24.2
Business loans <sup>2</sup> .....	26.7 <sup>b</sup>	+ 2.5	+19.0
Cash farm income <sup>3</sup> .....	n.a.	.....	.....
	Indexes (1947-49 =100)		
Industrial production <sup>2</sup> .....			
Combined index.....	144 <sup>a</sup>	0.0	+10.8
Durable manufactures.....	160 <sup>a</sup>	- 0.6	+11.9
Nondurable manufactures.....	130 <sup>a</sup>	0.0	+ 9.2
Minerals.....	127 <sup>a</sup>	+ 1.6	+ 9.5
Manufacturing employment <sup>4</sup> .....			
Production workers.....	108 <sup>a</sup>	- 0.7	+ 6.1
Factory worker earnings <sup>4</sup> .....			
Average hours worked.....	104	+ 0.5	+ 2.2
Average hourly earnings.....	145	0.0	+ 5.5
Average weekly earnings.....	151	+ 0.5	+ 7.8
Construction contracts awarded <sup>5</sup> .....	251	+ 6.9	+ 5.0
Department store sales <sup>2</sup> .....	121 <sup>a</sup>	- 0.8	+ 4.3
Consumers' price index <sup>4</sup> .....	115	- 0.3	+ 0.3
Wholesale prices <sup>4</sup> .....			
All commodities.....	111	+ 0.1	+ 1.6
Farm products.....	83	- 0.8	- 7.2
Foods.....	98	- 0.6	- 5.1
Other.....	120	+ 0.3	+ 4.2
Farm prices <sup>3</sup> .....			
Received by farmers.....	82	- 1.2	- 6.8
Paid by farmers.....	112	0.0	0.0
Parity ratio.....	80 <sup>d</sup>	- 1.2	- 7.0

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.

<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for November, 1955; comparisons relate to October, 1955, and November, 1954. <sup>d</sup> Based on official indexes, 1910-14 = 100. n.a. Not available.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1956				1955	
	Jan. 28	Jan. 21	Jan. 14	Jan. 7	Dec. 31	Jan. 29
Production:						
Bituminous coal (daily avg.).....thous. of short tons.....	1,725	1,757	1,767	1,854	1,820	1,473
Electric power by utilities.....mil. of kw-hr.....	11,512	11,521	11,594	11,057	10,751	10,003
Motor vehicles (Wards).....number in thous.....	163	169	175	144	119	183
Petroleum (daily avg.).....thous. bbl.....	6,994	7,045	7,014	7,026	6,987	6,677
Steel.....1947-49 = 100.....	143	141	141	139	134	119
Freight carloadings.....thous. of cars.....	692	699	710	611	575	642
Department store sales.....1947-49 = 100.....	94	98	104	94	88	87
Commodity prices, wholesale:						
All commodities.....1947-49 = 100.....	111.6	111.5	111.7	111.8	111.4	110.1 <sup>a</sup>
Other than farm products and foods.....1947-49 = 100.....	119.8	119.9	119.9	119.8	119.6	115.2 <sup>a</sup>
22 commodities.....1947-49 = 100.....	88.8	88.3	89.8	90.2	89.9	91.7
Finance:						
Business loans.....mil. of dol.....	26,211	26,322	26,396	26,643	26,673	21,994
Failures, industrial and commercial.....number.....	284	329	245	198	174	255

Source: Survey of Current Business, Weekly Supplements.

<sup>a</sup> Monthly index for January, 1955.



# RECENT ECONOMIC CHANGES

## Profits at High

Corporate profits before taxes, as estimated by the Council of Economic Advisers, soared to \$43.2 billion in 1955, up \$9 billion from 1954. However, tax liabilities also climbed to a record high, so that although profits after taxes at \$21.5 billion were a fourth above 1954, they were slightly below 1950. Virtually all industries shared in the increase, with durable goods industries' after-tax profits rising considerably more than nondurables. Leaders in the advance were the auto, steel and other metals, lumber, and chemical industries.

Reflecting the advance in earnings, stock prices were bid to an all-time high in 1955. As shown by the accompanying chart, there tends to be rough correspondence between movements of earnings and prices, though over the period shown, prices moved up from a relatively low to a relatively high position. Prices rose rapidly as earnings increased in 1950 and increased at a slower rate as earnings dropped back from the post-Korean peak. After the 1953 setback, prices started up again, rising 60 percent between the first half of 1954 and fourth quarter of 1955.

## Dividends Lead Income Advance

Personal income spurted upward sharply in December as stockholders reaped the benefits of last year's increase in corporate earnings. Total income rose by \$3 billion to a seasonally adjusted annual rate of \$315 billion. Two-thirds of the month's advance was accounted for by unusually large disbursements of year-end dividends. The bulk of the remaining increase stemmed from higher wages, salaries, and transfer payments.

For the year as a whole, personal income amounted to \$303.3 billion, more than 5 percent above 1954. Wages and salaries were up 6 percent to account for three-fourths of the year's advance. Interest, transfer payments, and nonfarm proprietors' income also rose about

6 percent each. Dividends were 12 percent higher than in 1954. On the other hand, there was little change in rental income, and farm income was down 5 percent.

## Corporations Use Record Volume of Funds

Corporations used a record volume of funds to finance their fixed and working capital requirements in 1955. Uses of funds totaled \$39.5 billion last year, 85 percent above 1954, and \$3 billion above the previous highs of 1950 and 1951. The biggest part of the increase over 1954 resulted from the shift to inventory accumulation in 1955. Book values of corporate inventories were up by \$4.0 billion last year compared with liquidation of \$2.8 billion the year before. Customer receivables, net of payables, rose by \$6.5 billion in 1955 compared with \$1.9 billion in 1954, and holdings of cash, United States government securities, and other assets rose by \$4.5 billion from liquidation of \$1 billion the year before. Plant and equipment expansion required \$24.5 billion, \$2.1 billion more than in 1954.

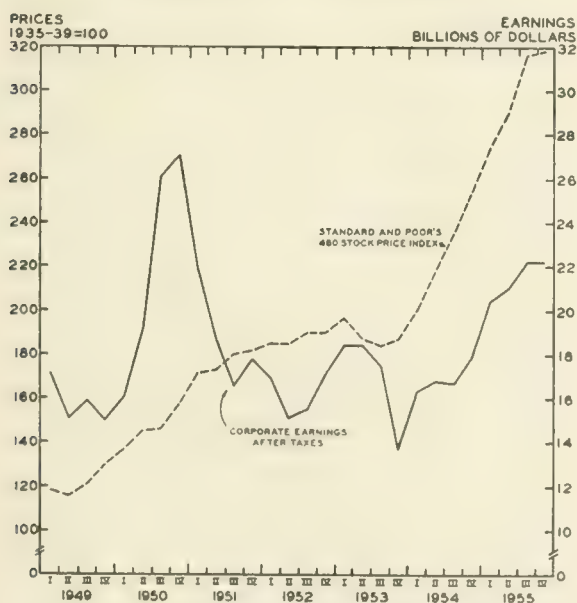
Most of these funds were supplied from internal sources by the corporations making the investments. Depreciation allowances amounted to \$14.5 billion and retained earnings to \$9.5 billion, as estimated by the Council of Economic Advisers. Depreciation reserves have tripled since 1947, partly because of high-level depreciable investments throughout the postwar period and partly because of rapid amortization allowed on facilities considered necessary in the interest of national security. An additional \$15.5 billion was derived from external sources. New security issues accounted for \$6.0 billion of this figure, slightly more than in 1954 though below the previous three years. Increased bank borrowing and Federal income tax and other liabilities provided the remainder of the funds used.

## New Economic Sector Price Indexes

The Bureau of Labor Statistics has worked up new indexes of wholesale prices. They differ from the Bureau's wholesale price index, which classifies prices by commodities and commodity groups, in that classification is in accordance with selected criteria to differentiate movements in important "sectors" of the economy. Commodities are divided into raw or crude materials, intermediate materials for further processing, and finished goods. Each of these major categories is further subdivided by end-use and durability. Thus finished goods are broken down into foods, other nondurables, and durable goods, and also into producers' and consumers' finished goods.

As would be expected, crude material prices are most volatile and finished goods prices most stable. Average wholesale prices of finished goods have not strayed more than two points from the 1955 average of 110.7 (1947-49 = 100) since the beginning of 1953. Crude materials prices in December, on the other hand, were 9 percent below the 1953 average. The decline in this index, which has been fairly persistent since early 1951, reflects continued reductions in wholesale prices of foodstuffs and animal feeds. Prices of nonfood crude materials were 8 percent higher at the end of 1955 than during 1953. Prices of intermediate commodities rose gradually between early 1953 and the middle of 1955, and then more sharply in the second half of last year as supplies of some commodities became short relative to demand.

POSTWAR BULL MARKET



Sources: Standard and Poor's Corporation; U. S. Department of Commerce; fourth quarter 1955 earnings estimated by Council of Economic Advisers.

# THE FEDERAL BUDGET FOR 1957

H. DEWAYNE KREAGER

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The Federal budget for fiscal year 1957 is a "candy" budget. There is something in it for everybody. In fact, aside from lack of an "adequate" government power development program, it represents a document that would have delighted most Democrats for the past twenty years.

Better organized and presented, graphically and editorially, than traditional budget documents, it nevertheless represents the least policed budget in a generation or more. For the first time since 1939, when the Bureau of the Budget became the principal management arm of the President for fiscal control over the executive departments and agencies, the shadow of the Bureau casts little fear in the long halls of government. Original target figures for 1957, issued by the Bureau to agencies early last year as limiting ceilings, were exceeded by the estimates returned to the Executive Office of the President. Nearly every agency (notable exception TVA — cut 20 percent) received more from the Administration than the Bureau originally recommended.

Most significant basic fact in this 1957 budget is the reversal in the trend toward lower government expenditures which has prevailed through the first three years of the Eisenhower administration. Expenditures are up for 1957 and mark the beginning of a new trend expected to continue for several years. But this time businessmen are cautioned not to take rising government spending as an indication of a shot-in-the-arm for the nation's economy. A sustaining factor, yes, but not a source of additional business for the economy as a whole. The Administration's estimated increases are admittedly conservative at only \$1.6 billion over 1956 (see table). While actual expenditures are expected to go even higher, possibly \$2 billion or more, they will little more than offset rising costs on procurement items, expressed in terms of the expected 11-cent hourly increase in wages and significant jumps in raw materials prices.

Often overlooked, during the past three years, is the fact that while military expenditures have been dropping sharply, nondefense spending has been rising slowly. Major national security expenditures dropped \$11 billion from 1953 to 1956. In the same span other spending has gone up a billion. The 1957 budget is no stranger to this trend. The \$25.5 billion earmarked for nondefense items represents the highest nonmilitary spending on record.

## Nondefense Increases Are Sustaining

It is in the nondefense area that much of the "candy" shows up. Paradoxically, with a businessmen's administration in the executive branch of the government, there will be more regulation of business, and more spent for welfare items. The variety of welfare programs slated for more money and more activity is evident from the following items selected at random: national parks, juvenile delinquency, regulation of monopoly, airport improvements, school construction, slum clearance, flood control, disaster insurance.

With reference to government regulation of business, more money for regulatory agencies means more staff and more activity. In the antitrust, anti-merger arena the Federal Trade Commission will pick up a 30 percent appropriation increase of \$1.3 million, raising agency funds to \$5.5 million in 1957. The Antitrust Division of the Justice Department will have a 33 percent increase,

one million more than the \$3.1 million available this year. Other regulatory agencies have similar increases. Meanwhile, government payrolls continue to rise.

Characteristically, nondefense expenditures provide a sustaining momentum to government spending. Once started they tend to continue year after year. The current moderate rise in welfare and other nondefense spending thus contributes to the rising level in government spending over the next few years. Defense spending, although more variable year to year, now will also support this trend. Momentum in spending is further enhanced by the proposal to increase new obligational authority, long-range contractual commitments, by \$4.3 billion over 1956. This, incidentally, represents a \$9.3 million increase over new obligational authority for 1955.

## Political Influences Dominate

Political considerations forced the Administration to make a conservative estimate of expenditures for 1957. In an election year there is need to demonstrate fiscal responsibility, and the narrow "managed" surplus for 1956 and 1957 could permit an Administration recommendation for a tax cut later this spring if it becomes politically expedient. Congress will exert no more pressure to effect cuts than did the Bureau of the Budget.

With costs of materials and wages generally rising, real economies are almost impossible. Experience teaches us that significant multi-billion budget cuts are possible only in major national security items, which make up 61 percent of this budget. This year such cuts are out. The Administration's token increase for defense programs could be pushed upward both by the Congress in this session, and by supplemental appropriations later in fiscal 1957. The precarious nature of the predicted \$400 million surplus in 1957 becomes evident when one notes that the Administration made a net deduction of \$350 million in 1957 spending estimates for an assumed postal rate increase. Such legislation has no chance this year.

The budget allows a \$903 million net increase in major national security expenditures. This amount will scarcely cover increasing costs. There is real evidence that a "revolt of the generals" is in the making, encouraged by but not caused by the reception given General Ridgway's recent articles. For the third straight year, no new procurement money is provided for the Army. Meanwhile, the Army Chief of Staff has already fired the first public blast in the Army's drive for nuclear weapons and for "greater mobility" in terms of new lightweight equipment. The proposed budget does not cover these considerations.

Given encouragement in congressional hearings, Air Force generals too will voice dissatisfaction over procurement limits. The new budget allows for about 1,900 new aircraft in 1957. Rule of thumb assumes 4,000 new aircraft per year as the requirement to keep the Air Force at strength levels and to build toward the announced objective of 137 air wings. Considering that Senators Jackson, Symington, Morse, and Kefauver, plus others, all concerned with the ratio of United States strength to that of Soviet Russia, are among those who will pursue testimony on the Air Force program, there will be plenty of encouragement for the generals.



In predicting military expenditures in fiscal year 1957 at least a billion dollars above those estimated now by the Administration, one should keep in mind that 1956 fiscal year expenditures are already running a billion and a half over the limits set by Administration leaders in their estimates a year ago. To understand the variable factors pushing upward on military expenditures, it is useful to consider the current Pentagon conflict over the "short war" and "long war" concepts. The short war idea, more aggressively supported by the Air Force, visualizes another world war as being of sixty to ninety days duration, during which the victorious side delivers an annihilation blow through greater effectiveness with nuclear weapons. The long war idea, long since abandoning the four to five year struggles typified by World Wars I and II, still has two facets: (1) an initial non-decisive period of nuclear attack, followed by a longer period of industrial and military recovery in which the nation first able to regroup its economy comes out on top; or (2) a series of hot incidents (like the Korean War) in the long drawn out stretch of cold war years.

In late December, the Air Force issued a new policy for production readiness, visualizing ideas of "production compression" and "production acceleration." While combining the long and short war concepts at least in part, both place a greater emphasis on military end items "in being," larger ready inventories of semi-processed production goods, and standby plant capacity "in being" for stepped up military production. Paramount in both is the belief that any tool of war not available in the first ninety days of conflict will contribute nothing to victory. When generally accepted for military programing, this policy spells a rising rate of military procurement.

Research will come in for more, particularly research facilities. Although military security is now heavily dependent upon rapid development of nuclear-powered aircraft and long-range guided missiles, the National Advisory Committee for Aeronautics was given no new money for new research facilities. This developed subsequently in the form of a \$15 million amendment proposed, after submission of the budget, by Representative Durham (Dem., N. C.). Similar action in other areas will provide additional push in expenditures.

## FEDERAL BUDGET SUMMARY

Fiscal Years 1953-57

(Billions of dollars)

Item	1953 Actual	1954 Actual	1955 Actual	1956 Estimate	1957 Estimate
Budget receipts.....	64.8	64.6	60.4	64.5	66.3
Budget expenditures.....	74.3	67.6	64.6	64.3	65.9
Major national security..	50.4	46.9	40.6	39.5	40.4
Veterans.....	4.3	4.3	4.5	4.8	4.9
Interest.....	6.5	6.4	6.4	6.8	7.0
International affairs and finance.....	2.2	1.7	2.2	2.0	2.1
Labor and welfare.....	2.4	2.5	2.6	2.8	3.0
Agriculture.....	2.9	2.6	4.1	3.4	3.4
Natural resources.....	1.4	1.2	1.1	1.0	1.0
Commerce and housing...	2.6	.9	1.6	2.2	2.1
General government....	1.5	1.2	1.2	1.6	1.8
Budget surplus or deficit...	-9.5	-3.0	-4.2	+ .2	+ 4"
Cash budget:					
Payments to the public..	76.8	72.0	70.5	71.0	72.9
Receipts from the public	71.5	71.5	67.8	73.5	75.4
Cash budget surplus or deficit.....	-5.3	-0.5	-2.7	+2.4	+2.4

\* Allows \$225 million reserve for contingencies.  
Source: Bureau of the Budget.

Budget estimates allow \$400 million for new agricultural money, based on the soil bank proposal, which visualizes paying most of the cost of acreage retirement and conservation through sales of surplus commodities now held by the Commodity Credit Corporation. A rather clever political gimmick, this plan would have permitted the Republicans to say that they were paying for their farm program with the Democrats' surpluses. But both parties now agree that the soil bank will not increase farm income, particularly in the urgent political period before elections, and that sale of surplus commodities to finance the Administration's farm program will only push prices lower in the market place. The outlook is for package legislation, combining features of both the soil bank and parity (rephrased to save face in both parties), all on a cash basis. This spells additional expenditures in the next 18 months for agriculture.

The above items alone could add \$2 billion net to 1957 expenditures.

## Estimates of Surpluses Are Precarious

While expenditures for fiscal year 1956 should be slightly higher than currently estimated, they may be exceeded by an even greater increase in receipts. Personal income levels, higher now than the \$312.5 billion rate used in programing the budget, should provide for sufficient 1956 fiscal year receipts to put the year's surplus closer to \$500 million than to the estimated \$200 million. This will be the "token cut in the public debt" sought by the Eisenhower administration as a prerequisite to recommending a personal tax cut.

Estimates of 1957 fiscal year receipts are sheer speculation at this early date in a political year. Nevertheless, on the basis of the Administration assumption of no tax cut, its \$66.3 billion estimate of total receipts (up \$1.8 billion over 1956) is precarious. Higher income levels will provide a broader base for government revenues. But a personal income tax cut is inevitable this political year, encouraged by the 1956 surplus. The effect on revenues will be in the neighborhood of \$2.5 billion to \$3.0 billion, depending upon the date applied. While rising income sources will partially offset this, they may not be enough to balance the minimum increase of \$2 billion in net expenditures suggested above. This leaves us with a possible deficit in the Administration budget of \$1.5 billion for fiscal year 1957 in place of the \$400 million surplus anticipated in the budget message.

The term "administration budget" is applied to the annual program submitted for government operations that require authorization and appropriations from the Congress, and which must be supported by revenues from tax and custom sources. Since the government operates vast social security and retirement programs it also collects and pays out a lot of money in addition to that included in the administration budget. When these trust fund accounts are added in, giving the net of receipts from the public over payments to the public, or vice versa, the term "cash budget" is used. The net \$5.1 billion change in one year in the cash budget, from a minus \$2.7 billion in 1955 to a plus \$2.4 billion in 1956, should be considered as mildly depressive. With bigger revenues expected this spring the surplus could go to \$3 billion. For fiscal year 1957, considering the probability of increased expenditures, and the near certainty of a tax cut, the cash surplus could fall to one billion or less, well below the budget estimate of \$2.4 billion for 1956.

## Taxes

A most important consideration for business is that the corporate income tax rate of 52 percent will not be reduced in this session of the Congress, and in all probability, will continue indefinitely. Rising costs, the new trend to increasing government expenditures, and political pressures to apply tax relief in the personal income category spell stalemate on corporate income tax levels. Factually speaking, if the business community can secure no relief on this item from the current businessmen's administration there is no practical reason for expecting help next year or the year after, regardless of the outcome of the 1956 elections.

Excise tax rates will be extended as is, with two possible exceptions: (1) the gas tax forgiveness for farmers which represents only a \$60 million cut in revenues, and (2) expected increases in highway use taxes (gasoline, Diesel fuel, and tires) to defray the cost of the anticipated new Federal highway program, which is not covered by the budget. Excise tax changes require substantial advance planning on rates, both by the Treasury and by staff of appropriate congressional committees. Attention the past year has concentrated on administration and interpretation of the existing code rather than on rate revision.

## Economic Problem of the West

(Continued from page 2)

minent. It is not unfair to point out, however, that the boom in Europe has progressed to the point where a readjustment is practically inescapable. Almost any kind of shock could put the forces of deflation to work.

Since the expansion of foreign trade has been an important factor in the investment boom, a curtailment of trade could provide the kind of shock that would cumulate into recession. The reaction on induced investment could spread through the economy, so that any recession might well be out of proportion to its cause. Last month it was suggested that a readjustment in this country would produce a more than proportional reduction in our buying from abroad. The major portion of the expansion in Europe is not based on exports to us, but their other markets would also be adversely affected. Thus, the ground is laid for blaming a large reaction on a minor reversal here, which, though far from wholly responsible, might happen to set it off.

## What Can Be Done

The forces of cyclical reversal and decline make no distinctions of geography, or of social or political systems. They work the same everywhere, in all economies that have made enough progress to create a reserve of capacity and put a large volume of durable goods into use. The extent to which an economy can escape their consequences depends upon its flexibility, upon its ability to shift at the right time into new lines of activity.

The European countries would seem to have some advantages over us with respect to establishing the necessary control. They have greater opportunities in the form of larger backlogs of unsatisfied needs for such items as housing and public construction; and their political philosophy and institutions allow greater scope for government action. In other respects, their position is relatively weaker.

Serious intentions toward personal income tax cuts is suggested by the 22 possible plans for personal tax cuts submitted to the Joint Committee on Taxation by its staff. Two are possibilities. The first, to raise personal exemptions from \$600 to \$700, would eliminate 5.6 million taxpayers from the rolls entirely, and therefore is administratively attractive. On the other hand, such action would give higher brackets a better break than lower income groups below \$5,000. A possibility now is that rates applying to the first \$2,000 of taxable income will be lowered to give all taxpayers the same break — \$50 for single people, \$100 for couples. This proposal, however, would cost more, and therefore may prove to be less attractive to the Congress.

Significantly, as the months have gone by, this Administration has changed its emphasis on "balancing the budget" to "managing the budget." The political desirability of balance will be achieved this current fiscal year. And the budget certainly must be considered now as being within manageable limits. When we speak of a possible variation of but \$2 billion (from a \$500 million surplus to a \$1.5 billion deficit) for 1957, with the strong possibility that variability within that range will continue for some years to come (barring hot war action), the situation is not cause for alarm, the size of the Federal debt notwithstanding.

There are obstacles everywhere to putting large "public works" programs into effect. Any basic redirection of activity imposes serious difficulties of transferring workers and other resources from one industry to another. Moreover, action can hardly be well begun before basic conflicts of policy are resolved — for example, as to desirable levels of unemployment.

As the boom has progressed, there has been a tendency to move away from the philosophy of direct control. This movement reflects a state of mind which attributes success to reliance on the "free economy," on the abandonment of specific controls in favor of monetary measures. The first steps taken will no doubt be a reversal of the minor restraints imposed in this form, with opposition to a larger government role before the effects of credit easing are apparent. This will tend to inhibit more effective action until the problem has grown to more difficult proportions.

How quickly the European countries will be able to reverse restrictive policies, such as those aimed at holding down consumption, is a question. The "automatic stabilizers" will no doubt help to maintain consumption. Tax reductions may also play a part, though specific measures are fought over as vigorously there as in this country. Furthermore, it is not so easy for them to rely on unbalanced government budgets as it is for us. Fear of inflation is strong, based on actual experience, and deficits are regarded as the source of inflation.

Although the balance may favor somewhat more effective action against a recession in most of Europe, it can hardly be said that they, any more than we, have brought the business cycle under control. As we have moved up together, so we may move down together. The materials-supplying and undeveloped countries in other areas will also be adversely affected. Almost everywhere measures will be adopted to minimize the decline. The future hinges on the wisdom and effectiveness of the actions to be taken.

VLB



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Economic Motivation

A growing interest in the motivations behind economic behavior has resulted in two important new bulletins published by the Bureau of Economic and Business Research. One is *Consumer Behavior and Motivation*, which presents the papers given at the 1955 Marketing Symposium held by the Marketing Department of the University of Illinois last fall. The papers included are "A Functionalist Approach to Consumer Motivation," by Wroe Alderson; "Scientifically Predicting and Understanding Human Behavior," by Ernest Dichter; "Measuring Motivational Forces Influencing Consumer Behavior," by Rensis Likert; "Can the Clinical Techniques Be Validated?" by Darrell B. Lucas; "External Product and Enterprise Differentiation and Consumer Behavior," by Ewald T. Grether; and "Projective Techniques from an Analytical Point of View," by Robert Ferber. The bulletin is priced at \$1.00.

The second bulletin is *Determinants of Capital Expenditures*, by Robert Eisner. It is the report of an interview study of several large manufacturing firms. The study attempts to synthesize interview data and economic theory regarding the reasoning behind expenditures for capital expansion. Among the topics covered are the lines of authority for determining expenditures, criteria for authorizing expenditures, and influence of cost of capital and availability of internal funds. Its price is \$1.50.

Both of these bulletins are available from 205 David Kinley Hall, Urbana, Illinois.

### Record State and Local Spending

Expenditures of state and local governments, excluding state grants to local units, rose to an all-time high of \$30.7 billion in 1954, 10 percent over 1953's previous record. About two-thirds of this amount was for current operations, covering such items as wages and salaries, purchases of goods and services used by the governments,

and purchases of goods for resale by the governments. Most of the remainder was for capital outlays for buildings, highways, and equipment.

Expenditures for some of the principal functions of state and local governments have increased substantially since the end of World War II, as may be seen in the accompanying chart. Education continues to use the largest portion of the funds. That this has increased so rapidly since the war is probably the result of the baby boom during the 1940's. Highway spending surpassed \$5 billion for the first time in 1954, although despite this rising trend it has failed to do any more than keep pace with the increase in automobile purchases by consumers.

Costs of operating utilities, almost entirely local in nature, have also expanded rapidly in recent years. These include water systems, city transportation systems, and municipal gas and light companies. In 1954 \$2.6 billion was spent by these companies throughout the nation, two and one-half times the amount spent in 1946.

### Metal News

Aluminum in a tube is a recent product of the Magic Iron Cement Company, 5403 Bower Avenue, Cleveland 27, Ohio. In paste form, the plastic aluminum can be used for patching and mending of all types of metal surfaces, according to the maker. It is spread on just as it comes from the tube and requires only three to four hours to dry. It is waterproof, gasoline-proof, and able to withstand heats up to 600 degrees Fahrenheit.

For use primarily in the field of heat exchange is a new type of strip metal with expandable portions in which tubes or channels may be inflated. Called Tube-in-Strip, the product is made of copper, brass, or aluminum by Revere Copper and Brass, Inc., 230 Park Avenue, New York 17. The metal can be stamped or drawn before the channels are inflated, and dies may be used to expand the tubes into shapes other than the normal circular one.

### Working Wives

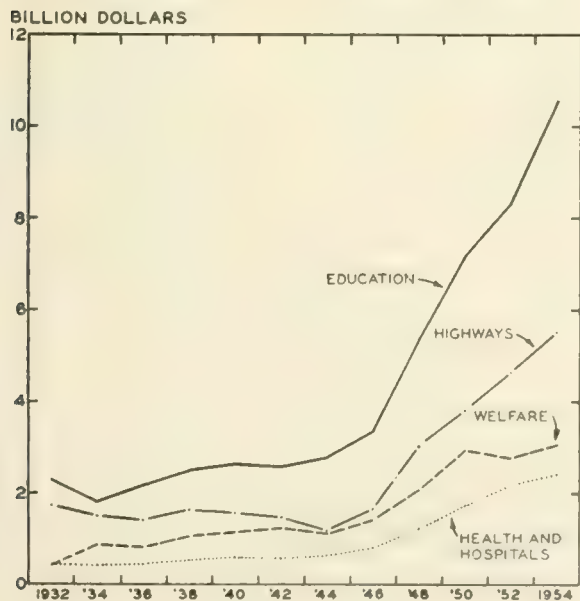
As of April, 1955, more than two-thirds of the working women in the United States were married, according to a recent Census report. A record 11.8 million wives were employed at that time as compared with a decline in single working women to 5.1 million. An increase in the proportion of married women in the total adult female population accounts for only part of these diverging trends. Another major factor has been the increasing proportion of wives working to maintain or raise family income. The declining number of single women working has been aided by the trend toward more education.

Last April 29.4 percent of all the married women in the nation were in the labor force. The proportion varied considerably by age group, however:

Age	Proportion working
Under 35 .	26.5%
35-44.....	33.7
45-64.....	29.0
65 and over.....	7.5

The somewhat smaller than average portion of those under 35 working is probably the result of the need to be at home with small children. Only 16.2 percent of those with children under six were in the labor force as compared with 33.4 percent of those whose children were school age or older.

STATE AND LOCAL EXPENDITURES



Source: U. S. Department of Commerce.

# LOCAL ILLINOIS DEVELOPMENTS

Seasonal peaks highlighted the picture of Illinois business in December. Christmas activity brought sharp gains in electric power production, department store sales, bank debits, and business loans extended by leading Chicago banks. Life insurance sales and coal production also rose substantially during the month.

A seasonal drop in construction contracts awarded resulted in a lower level of awards than in the same month of 1954. Construction and agriculture were the only major segments of the economy at lower levels than in December, 1954.

## Life Insurance Purchases

Continuing the long-term growth in "insurance-mindedness," life insurance sales in Illinois reached a new peak last year. In total, \$2.0 billion was purchased in the State, 18 percent more than in 1954, according to figures compiled by the Life Insurance Agency Management Association.

While sales rose in Illinois during 1955, they did not keep pace with the 20 percent increase in nationwide sales. Purchases of life insurance in 29 states expanded more rapidly, Nevada taking the lead with a 50 percent gain.

In Chicago alone sales rose 22 percent, substantially more than in the outlying areas of the State. Even there, however, sales lagged behind many of the other large cities, with Detroit, for example, recording a gain of 31 percent.

## Tax Collections in 1955

A booming economy brought State tax revenues up 11.6 percent last year to a total of \$471 million. Substantial increases were recorded in most of the major taxes. In addition a new tax was imposed, yielding almost \$3 million in the four months it was collected. This is the use tax, to extend the retailers' occupation tax to out-of-state purchases.

As may be seen in the accompanying chart, the largest gain was chalked up by the retailers' occupation tax. Higher sales and a midyear increase in the tax rate resulted in a boost of \$35 million, 70 percent of the total rise in State revenue.

The motor fuel tax, next largest source of State income, rose by \$7 million as the number of cars on the road continued to expand. Levies on public utilities increased over \$2 million, and both the cigarette tax and the liquor tax yielded \$1 million more than they had in 1954.

The only tax to show a decline during the year was that on coin-operated amusement devices, the smallest of the "major" taxes. The revenue loss was only \$22,857, a 5.6 percent drop.

## Record Minerals Production

Illinois production of minerals in 1955 was estimated at \$568 million, the highest amount in the State's history, according to the State Geological Survey. As a result Illinois will probably have little trouble retaining its rank as seventh among the states in mineral production.

Oil yielded the greatest dollar return, surpassing coal for the second time. The discovery of new pools and more extensive use of secondary recovery methods raised the value of oil production almost 20 percent to \$236 million.

Coal production reversed its downward trend during 1955, and climbed to a total of 45 million tons worth \$180 million. The increase in demand of electrical generating plants offset a further decline in railroad requirements. Peak industry operations also aided in building up demand for Illinois coal. The state ranks fourth among the producing states with almost 10 percent of total national output.

Increasing demands from the steel industry boosted the output of fluorspar. The construction boom continued to bolster the mining of stone, clay, sand, and gravel during 1955, their total value amounting to about \$127 million.

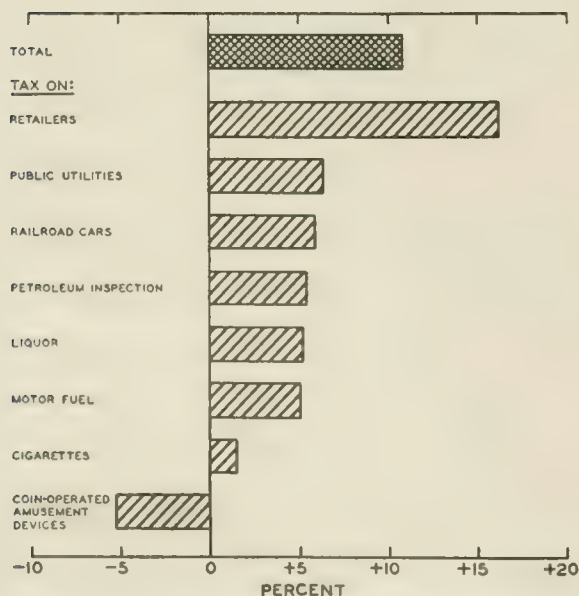
## Earmarked State Funds

Approximately 40 percent of the funds collected from Illinois taxes are earmarked for specific use and are not subject to general authorization by the State legislature. Despite this seemingly large figure, only eight states earmark a smaller portion of their funds, and the national average is slightly over 50 percent. The proportion of funds earmarked in the various states ranges from 6 percent in Delaware to 89 percent in Alabama, according to figures compiled by the Tax Foundation in their recently published study, *Earmarked State Taxes*.

The great majority of earmarked funds in Illinois are set aside for highways. All receipts from the taxes on gasoline, vehicle registration, and operator licensing are used for this purpose. In addition one-third of the tobacco tax is earmarked for veterans' bonuses and most of the pari-mutuel tax is set aside for these bonuses and for use in State and local fairs and expositions.

In Illinois no funds are set aside for education and welfare in contrast to the practice in many other states. For example, in Alabama 65 percent of the earmarked funds are for use in education, and in most of the southwestern states large portions are set aside for welfare.

**TAX REVENUE**  
(Percent change, 1954 to 1955)



Source: Illinois Department of Revenue



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

December, 1955

		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>5</sup> (000,000)	Postal Receipts <sup>6</sup> (000)
<b>ILLINOIS...</b>		<b>\$15,697<sup>a</sup></b>	<b>1,087,535<sup>a</sup></b>	<b>\$481,867<sup>a</sup></b>		<b>\$15,507<sup>a</sup></b>	<b>\$19,965<sup>a</sup></b>
Percentage change from	Nov., 1955	13.5	+5.8	+0.3	+48	+11.7	+17.5
	Dec., 1954	-41.9	+9.6	+21.5	+8	+4.2	+3.4
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b>		<b>\$11,564</b>	<b>825,770</b>	<b>\$335,505</b>		<b>\$14,179</b>	<b>\$17,084</b>
Percentage change from	Nov., 1955	-45.9	+6.1	-2.1	+48	+12.2	+13.4
	Dec., 1954	-41.2	+8.5	+26.4	+8	+3.8	+3.6
<b>Aurora</b>		<b>\$ 144</b>	<b>n.a.</b>	<b>\$ 7,203</b>		<b>\$ 62</b>	<b>\$ 173</b>
Percentage change from	Nov., 1955	-10.6		+7.5	+46	+5.4	+39.0
	Dec., 1954	+121.5		+6.0	+10	+11.4	+7.5
<b>Elgin</b>		<b>\$ 116</b>	<b>n.a.</b>	<b>\$ 5,715</b>		<b>\$ 39</b>	<b>\$ 157</b>
Percentage change from	Nov., 1955	-80.3		+4.7	+31	+10.9	+14.6
	Dec., 1954	-41.1		+1.4	+4	+5.8	+15.7
<b>Joliet</b>		<b>\$ 100</b>	<b>n.a.</b>	<b>\$10,409</b>		<b>\$ 81</b>	<b>\$ 174</b>
Percentage change from	Nov., 1955	-62.4		-4.8	n.a.	+9.6	+89.1
	Dec., 1954	-84.2		+5.9		+11.7	+2.9
<b>Kankakee</b>		<b>n.a.</b>	<b>n.a.</b>	<b>\$ 5,044</b>		<b>n.a.</b>	<b>\$ 73</b>
Percentage change from	Nov., 1955			+3.8	n.a.		+61.6
	Dec., 1954			-0.1			+2.7
<b>Rock Island-Moline</b>		<b>\$ 238</b>	<b>24,930</b>	<b>\$ 9,390</b>		<b>\$ 96<sup>b</sup></b>	<b>\$ 240</b>
Percentage change from	Nov., 1955	-52.5	+9.6	-2.2	n.a.	+5.5	+49.4
	Dec., 1954	-81.7	+15.4	+7.6		+7.8	-8.2
<b>Rockford</b>		<b>\$ 962</b>	<b>39,519</b>	<b>\$16,897</b>		<b>\$ 184</b>	<b>\$ 345</b>
Percentage change from	Nov., 1955	-4.6	+5.0	+3.8	+58 <sup>c</sup>	+13.6	+66.7
	Dec., 1954	-24.1	+14.3	+16.4	+10 <sup>c</sup>	+17.6	+6.3
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b>		<b>\$ 551</b>	<b>8,014</b>	<b>\$ 5,716</b>		<b>\$ 72</b>	<b>\$ 131</b>
Percentage change from	Nov., 1955	+204.4	+6.0	+13.0	n.a.	+32.2	+30.3
	Dec., 1954	+580.2	+10.4	+14.5		+21.5	+14.9
<b>Champaign-Urbana</b>		<b>\$ 153</b>	<b>10,844</b>	<b>\$ 7,508</b>		<b>\$ 63</b>	<b>\$ 142</b>
Percentage change from	Nov., 1955	-22.3	+9.2	+12.0	n.a.	+1.0	+33.9
	Dec., 1954	0.0	+12.6	+17.9		+5.2	-12.4
<b>Danville</b>		<b>\$ 216</b>	<b>10,476</b>	<b>\$ 6,658</b>		<b>\$ 52</b>	<b>\$ 95</b>
Percentage change from	Nov., 1955	-7.3	+4.0	+14.2	+62	+3.6	+42.9
	Dec., 1954	+28.6	+7.8	+19.3	+6	+4.7	-5.1
<b>Decatur</b>		<b>\$ 737</b>	<b>32,707</b>	<b>\$11,674</b>		<b>\$ 121</b>	<b>\$ 177</b>
Percentage change from	Nov., 1955	-29.7	+1.1	+10.7	+49 <sup>c</sup>	+3.6	+55.0
	Dec., 1954	+24.7	+24.8	+13.6	+7 <sup>c</sup>	+6.5	0.0
<b>Galesburg</b>		<b>\$ 100</b>	<b>7,866</b>	<b>\$ 4,328</b>		<b>n.a.</b>	<b>\$ 61</b>
Percentage change from	Nov., 1955	-59.3	-2.1	+5.9	n.a.		+57.7
	Dec., 1954	-17.4	+8.6	+10.9			+1.2
<b>Peoria</b>		<b>\$ 281</b>	<b>51,860<sup>c</sup></b>	<b>\$17,119</b>		<b>\$ 224</b>	<b>\$ 395</b>
Percentage change from	Nov., 1955	-75.0	+3.1	-8.3	+44 <sup>c</sup>	+2.4	+33.2
	Dec., 1954	-13.8	+9.9	+12.9	0 <sup>c</sup>	+6.8	+8.5
<b>Quincy</b>		<b>\$ 138</b>	<b>9,088</b>	<b>\$ 5,128</b>		<b>\$ 40</b>	<b>\$ 99</b>
Percentage change from	Nov., 1955	-42.7	+6.7	+15.1	+52	+2.5	+42.7
	Dec., 1954	-9.8	+11.7	+13.6	0	+1.8	-8.1
<b>Springfield</b>		<b>\$ 153</b>	<b>33,762<sup>c</sup></b>	<b>\$14,690</b>		<b>\$ 118</b>	<b>\$ 346</b>
Percentage change from	Nov., 1955	-21.1	+6.1	+16.9	n.a.	+7.6	+56.7
	Dec., 1954	-40.5	+12.5	+22.0		+7.6	+2.8
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b>		<b>\$ 150</b>	<b>12,739</b>	<b>\$ 9,187</b>		<b>\$ 133</b>	<b>\$ 134</b>
Percentage change from	Nov., 1955	+56.3	+6.0	1.7	n.a.	-2.2	+121.0
	Dec., 1954	-67.9	+6.4	+3.1		-6.3	+0.9
<b>Alton</b>		<b>\$ 85</b>	<b>12,818</b>	<b>\$ 4,944</b>		<b>\$ 44</b>	<b>\$ 61</b>
Percentage change from	Nov., 1955	-46.5	+2.6	+3.4	n.a.	+12.7	+70.4
	Dec., 1954	-93.4	+7.9	+10.2		+12.5	-2.2
<b>Belleville</b>		<b>\$ 9</b>	<b>7,143</b>	<b>\$ 4,752</b>		<b>n.a.</b>	<b>\$ 78</b>
Percentage change from	Nov., 1955	-94.3	+11.6	+6.8	n.a.		+47.9
	Dec., 1954	-96.8	+20.1	+8.7			+7.8

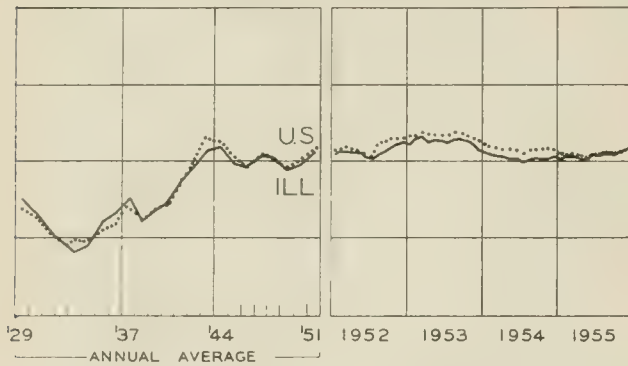
<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.

Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. Data are for August, 1955, the most recent available. Comparisons relate to July, 1955, and August, 1954. July data are available on request. <sup>3</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>4</sup> Local post office reports.

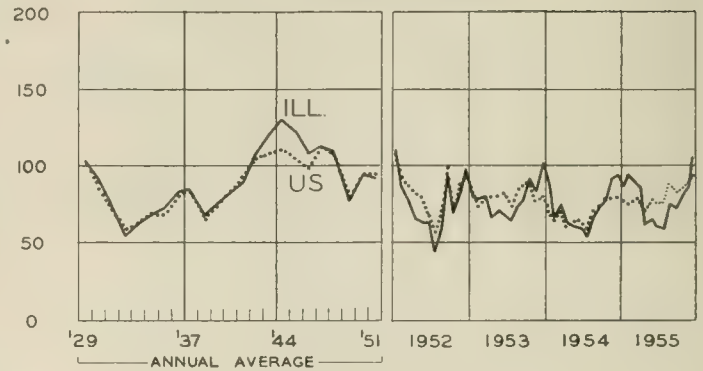
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

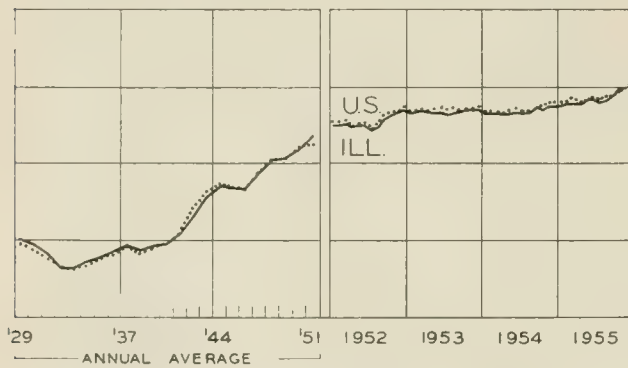
EMPLOYMENT - MANUFACTURING



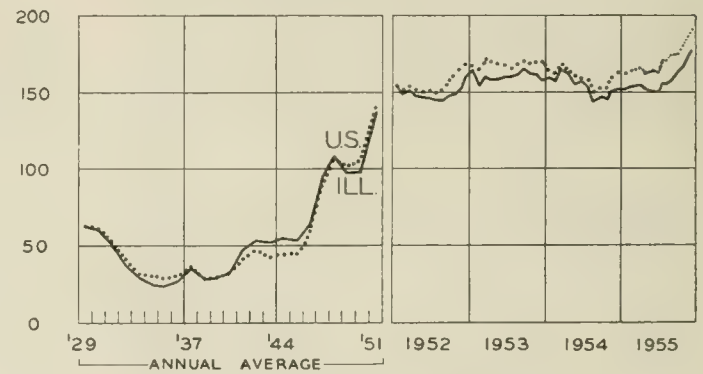
COAL PRODUCTION



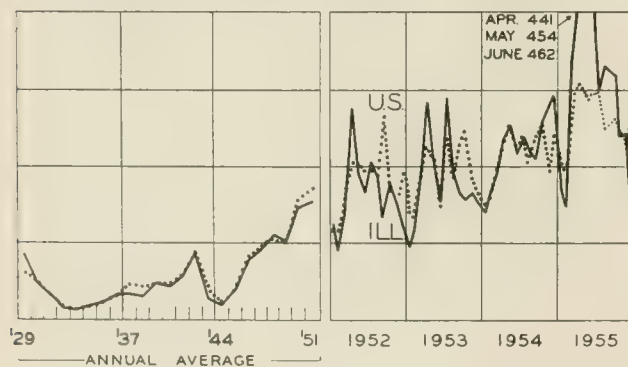
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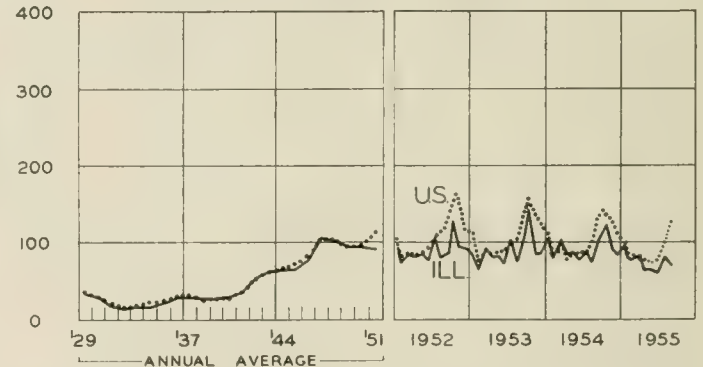
BUSINESS LOANS



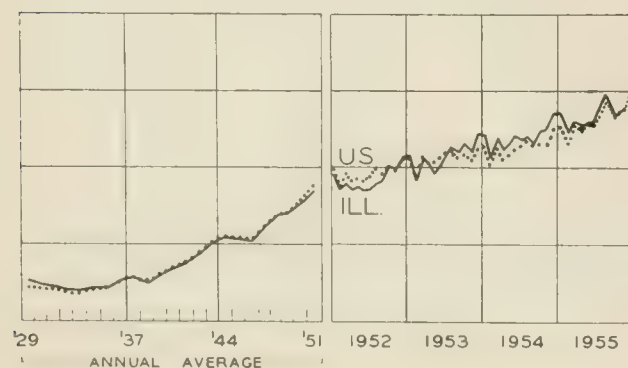
CONSTRUCTION CONTRACTS AWARDED



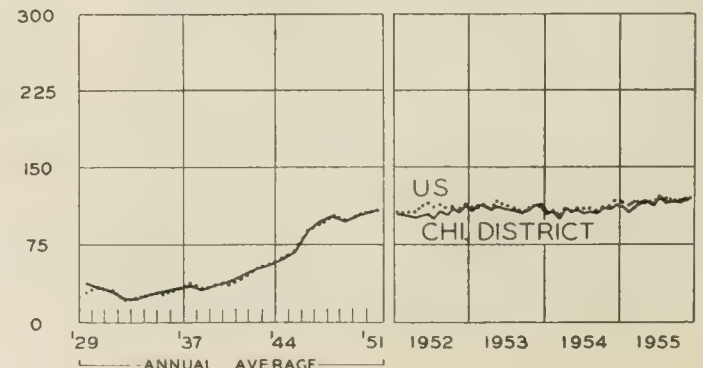
CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

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## HIGHLIGHTS OF BUSINESS IN FEBRUARY

Some leveling off in business activity was evident in February. With the production of many industries at near-capacity rates, little room is available for further expansion until new productive capacity is added. This is especially true of such primary metals as iron and steel, copper, and nickel, where the pressure of demand has led to price increases in many cases. By the end of the month, however, signs multiplied that supplies were catching up with demand in most industries.

February appeared to be another good month for retailers. Department store sales averaged 5 percent above their level of last February, and retail sales as a whole about 4 percent higher.

### Employment Down

Layoffs in the automobile and related industries combined with seasonal curtailments in agriculture, construction, and trade led to a decline of 300,000 in employment in February. Nevertheless, total employment, at 62.6 million, was almost 4.5 percent higher than the figure in February, 1955.

Despite the decline in employment, the number of unemployed in February remained at the January level of 2.9 million. Most of the people leaving seasonal jobs apparently withdrew from the labor force rather than seek other jobs.

Conditions of factory employment in February registered no change from the preceding month. The factory workweek remained at 40.6 hours, and average hourly and weekly earnings of factory production workers held steady at \$1.93 and \$78.36, respectively. Both earnings figures were considerably above last February levels.

### Continued Price Stability

Despite fluctuation in the prices of individual commodities, the over-all indexes of prices continue to register remarkable stability. At 112 percent of its 1947-49 average, the Bureau of Labor Statistics comprehensive index of wholesale prices for February was little over 1 percent higher than last February and within one point of its level four years earlier.

Nevertheless, during the past year a number of significant price movements have taken place. Wholesale prices of farm products have declined 8.5 percent and prices of meat products have dropped more than 15 percent, whereas prices of commodities other than foods and farm

products have increased 4 percent. Changes in individual commodity prices have been even more substantial.

Consumer prices have also been stable in the aggregate. From January, 1955, to this January, the consumer price index has moved up only three-tenths of 1 percent. At the same time, the cost of medical care has increased by 3.1 percent and that of personal care by 4.4 percent. Fortunately for the consumer, a slight decline in food prices largely offset these and other increases.

### Construction Steady

Construction activity appears to have reached a temporary plateau. In February for the second month in succession, outlays for new construction approximated those of the corresponding month of last year. The \$2.7 billion spent on new construction in February was slightly less than the January figure, in line with the usual seasonal pattern. For the first two months of this year, construction outlays amounted to \$5.5 billion—the same as last year—and corresponded to a seasonally adjusted annual rate of \$41.5 billion.

The decline from January to February was characterized by a continuation of the downtrend in private homebuilding which began late last summer. Expenditures for this purpose dipped below \$1 billion in February, the first time since April, 1954, that this has occurred.

Preliminary reports based on F. W. Dodge building contract awards for states east of the Rockies indicate that construction activity this spring may be higher than ever. For the first two months of this year, nonresidential contract awards in particular were well ahead of last year.

### Personal Income Down

The personal income of the American people in January declined to a seasonally adjusted annual rate of \$312.5 billion. The reason for the decline was the unusually large dividend payments made by corporations in December.

Personal incomes in January were nevertheless nearly 7 percent higher than they were last January. Income from interest and dividends rose the most during this period, increasing 15 percent to an annual rate of \$28.0 billion.

Personal income for the year 1955 amounted to \$303.3 billion or about \$1,840 for every man, woman, and child in the country. As in past years, roughly two-thirds of this sum was received in the form of wages and salaries.

# ILLINOIS BUSINESS REVIEW

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## Foreign Trade Policy

Problems of foreign economic policy will become acute when there is any letdown from the high prosperity now being enjoyed here and abroad. Since the odds are greatly in favor of such a letdown in the near future, attention should be given to determining policy now, so that everything is not left to be decided in an atmosphere of confusion and emergency.

It is only realistic to recognize that any policies established will encounter opposition at home and suspicion abroad. This is evident in the disparities between our announced goals in international relations and the actions actually taken on specific issues that arise. We declare ourselves for free trade, and since we are in an almost unique position to play the game that way, it might seem that we mean what we say. But we violate the principle whenever industry groups bring pressure for protection. We also advocate cooperation in economic and social progress for the underdeveloped countries. But the actual assistance given, apart from what is to our own economic or strategic advantage, is practically negligible.

### Passion for Protection

It is comforting to excuse these inconsistencies with the thought that hardly anyone can live up to his ideals all the time. The trouble is, we have developed such a passion for protection that it interferes with rational handling of international affairs.

The security we seek takes two forms—protection against attack by military forces and protection against competition by low-cost producers. The intermingling of the two may be seen in the decision on watches, which raised the tariff on the basis that our watch industry would be needed for instrument production in the event of war. This principle was subsequently made a feature of all cases involving defense industries under the "escape clause" of the General Agreement on Tariffs and Trade.

Even apart from military considerations, however, the sorry history of protectionism continues. The action on bicycle tariffs presents a stark example. Here, with no justification other than preserving the market for our own producers, the tariff was raised. Another move of the same character was the extension of "escape clause" protection to the entirety of an industry when only part of its output was threatened.

Customs administration is also unnecessarily involved and restrictive. Last year, the President's Commission on Foreign Economic Policy recommended that customs procedures be simplified. Reports from Washington indicate that a bill designed to accomplish this is not likely to be passed by Congress in the current session.

The latest item in the chronicle of ways to lose friends is the proposal by Secretary Benson to dispose of our surplus cotton by dumping it abroad. His idea that we should recapture "our traditional share" of the world market ignores the fact that the world has been changing. New countries have entered the field, for reasons having to do mainly with their own needs and abilities; and some friendly producing nations are heavily dependent upon cotton exports as a source of foreign exchange.

The question arises: Can a country that is unable to live up to its preaching about the efficacy of competition in a period of prosperity be expected to pursue an intelligent policy in adversity? This question was underscored by the British when their low bid on generating equipment for the Chief Joseph Dam was set aside. The decision held that unemployment in the Pittsburgh area justified awarding the contract to a higher bidder who would produce the equipment in that city. With employment in this country at a record high, this justification hardly impressed the losers as the real reason.

### Facing World Competition

There can be no doubt that pressures to restrict trade will increase during a recession. Competition is sure to be intensified as margins of excess capacity develop. Protection will appear to be more necessary than ever; and there will be seeming justification for new actions to counteract the effects of measures directed against our trade. The only way to keep from falling into the trap is to understand that the more trade is restricted, the deeper will all concerned sink into depression.

The expansion in Western Europe and Japan has progressed to the point where those countries are already becoming tough competitors. In the event that incomes and sales decline, capacity will be freed from current markets, and efforts will be made to maintain operations through increased sales abroad. Such devices as barter agreements, credit, subsidies, and various forms of exchange control will no doubt be used to help make such efforts effective.

A new source of competition, already in evidence on a small scale, is that from the Soviet bloc. The countries of Eastern Europe have built industries rapidly, with the help of measures to restrict consumption, and they are now beginning a drive for exports of heavy industrial products. Where there are neutrals, like Egypt, with a surplus of cotton or other materials, they find a ready-made opportunity for mutually advantageous exchange.

There is a tendency to condemn such trade as part of a program of political penetration. No doubt political motives do enter. But the accusation cannot dispel two essential facts: first, such transactions accomplish the same purposes for the neutrals as any other kind of trade; and second, the capital-using countries of the East face the same problem as those of the West. As points of market saturation are approached, production must be shifted into new channels. Then, the easiest way to obtain cotton, foodstuffs, and other materials in surplus elsewhere may be to keep on producing the things for which capacity is already available and to exchange them for

(Continued on page 8)



## THE CHICAGO MERCANTILE EXCHANGE

The Chicago Mercantile Exchange is the largest produce market in the world and as a commodity exchange is exceeded only by the Board of Trade and the New York Cotton Exchange. The Exchange deals primarily in eggs, butter, onions, potatoes, turkeys, and for the past two years, scrap iron and steel. It has also served as a futures market for apples and cheese, but recently activity in these commodities has faded.

Membership is currently limited to 500, but membership in the Exchange does not in itself permit trading on the floor. Only if an Exchange broker has been authorized to do so by a firm which is a clearing house member may he be qualified to trade personally. All other members must have their orders executed and cleared by a member of the clearing house. In order to qualify for membership in the clearing house, a firm or partnership must have two officers or directors as members of the Exchange and must have the approval of the Exchange Board of Governors as clearing house members.

Qualified brokers may actively engage in either "spot call" (cash) or "futures call" transactions for their own account, for other members, or for customers. The spot sales must be made within one day of the trade whereas futures contracts may provide for deliveries on any trading day of a specified month. At the close of each market day the individual accounts of each broker are prepared and filed with the clearing house manager. In effect each transaction is deemed to have been bought from or sold to the clearing house, and all cash amounts due to or from each broker are then settled, facilitating the speedy adjustment of contract obligations.

The volume handled on the Exchange has grown immensely since the end of World War II, currently amounting to more in a single month than the whole of its first year of operation. During 1955 approximately \$2.5 billion in commodities were traded. They totaled 192 million cases of eggs, 2.5 million pounds of butter, 89 million sacks of onions, 91,000 sacks of potatoes, and over 3,000 long tons of scrap iron and steel.

### Development

During the early settlement of the Middle West, many people living in town raised chickens, kept a cow, and had a small garden. In addition, farmers living nearby could bring eggs, butter, and vegetables to town and trade them for other things they needed. However, as cities began to grow, the demand for agricultural commodities increased, but produce, such as eggs and butter, became extremely high priced or even unavailable at times. These seasonal fluctuations in supply created serious problems and dealers realized that something had to be done about it.

In 1874, the Chicago Produce Exchange was organized by South Water Street produce dealers, including a few oleomargarine manufacturers. It operated entirely on a cash market basis, creating a recognized market for butter, cheese, eggs, poultry, and other commodities. Even

in those days friction developed between oleo and butter dealers. As a result, the Chicago Butter and Egg Board, a new organization excluding oleo dealers, was organized in 1898.

The Butter and Egg Board provided daily market quotations on butter, eggs, and other products, and it too functioned entirely as a cash market. Very little is known about the Board's operations during its early years, but it established regulations governing trade practices and developed methods of grading butter and eggs. World War I greatly increased the Board's business and a policy was adopted whereby members were allowed to buy and sell for delivery at any time in the future.

It soon became apparent that it was desirable to trade in other commodity futures in addition to butter and eggs. Efforts to improve arrangements for futures trading were at first directed toward developing a second exchange. However, in order to avoid having two similar organizations in Chicago, the Butter and Egg Board set up rules for organized futures trading. As a result of the reorganization, a new market, the Chicago Mercantile Exchange, was inaugurated on October 6, 1919, and organized commodity trading became firmly established.

### Purpose of the Markets

The Mercantile Exchange, like the Board of Trade, has become basically a futures market where commodity inventories for future use can be hedged—a process by which firms can transfer to speculators the risk involved in carrying cash commodities. As a result of the insurance protection provided through hedging, processors and distributors can stabilize their operations and organize them more effectively. Since the speculators assume the price risk, such firms as Armour, Beatrice, Borden, National Dairies, and Swift, who use the Exchange for hedging purposes, can concentrate on their regular functions without the need for sharp adjustments whenever the supply situation changes.

In 1953, the Exchange commenced a campaign to convince the public that "trading" on exchanges for speculative profit serves a real economic function. Both the professional and the amateur speculator attempt to realize a profit—the former makes a business of it whereas the latter attempts to supplement his income. However, in so doing, they assume the risks inherent in storing and moving goods to the consumer. In this "educational" campaign, amateurs were warned to limit their commitments. Another sound bit of advice was that if the amateur finds he is wrong, he should get out of the market—in a hurry!

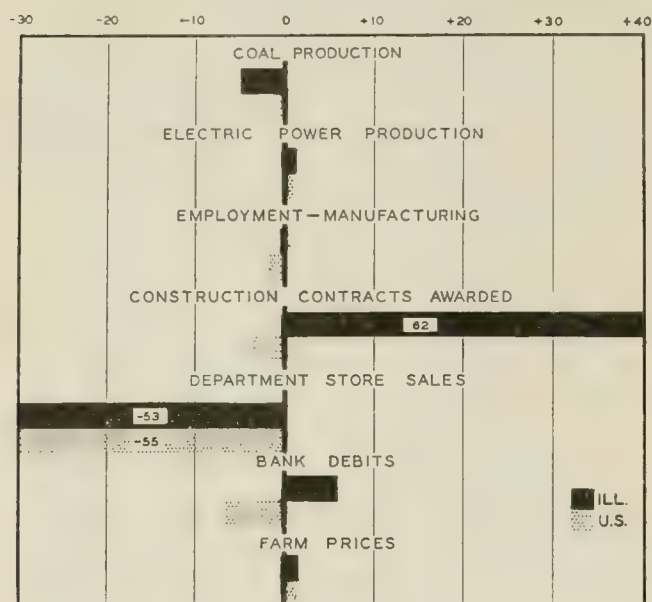
Regardless of the success of this recent campaign, the future role of the Chicago Mercantile Exchange appears to be one of continued expansion and importance. Located in an area of fertile agricultural productivity and faced with an increasing commodity output to supply the needs of a growing population, the Exchange may well look forward to a growing volume of trade.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes December, 1955, to January, 1956



## ILLINOIS BUSINESS INDEXES

Item	January 1956 (1947-49 = 100)	Percentage Change from	
		Dec. 1955	Jan. 1955
Electric power <sup>1</sup> .....	226.6	+ 1.2	+11.0
Coal production <sup>2</sup> .....	100.9	- 5.1	+15.1
Employment—manufacturing <sup>3</sup> .....	108.6	- 0.2	+ 7.0
Weekly earnings—manufacturing <sup>3</sup> .....	150.6 <sup>a</sup>	+ 0.7	+ 9.2
Dept. store sales in Chicago <sup>4</sup> .....	114.0 <sup>b</sup>	- 0.9	+ 3.6
Consumer prices in Chicago <sup>5</sup> .....	118.1	- 0.3	+ 0.9
Construction contracts awarded <sup>6</sup> .....	287.5	+62.6	+67.0
Bank debits <sup>7</sup> .....	187.8	+ 5.9	+25.9
Farm prices <sup>8</sup> .....	72.0	+ 1.4	-15.3
Life insurance sales (ordinary) <sup>9</sup> .....	206.4	-17.6	+18.0
Petroleum production <sup>10</sup> .....	132.6	+ 2.3	+14.9

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agency; <sup>10</sup> Ill. Geol. Survey.  
<sup>a</sup> December data; comparisons relate to November, 1955, and December, 1954. <sup>b</sup> Seasonally adjusted.

## UNITED STATES MONTHLY INDEXES

Item	January 1956	Percentage Change from	
		Dec. 1955	Jan. 1955
Personal income <sup>1</sup> .....	312.5 <sup>a</sup>	- 0.7	+ 6.9
Manufacturing <sup>1</sup> .....	325.2 <sup>a</sup>	- 0.7	+11.5
Sales.....	46.2 <sup>a, b</sup>	+ 0.7	+ 6.9
Inventories.....	12.9	-16.0	- 3.9
New construction activity <sup>1</sup> .....	12.6	- 7.0	+10.2
Private residential.....	8.7	- 5.7	- 2.6
Private nonresidential.....	16.8 <sup>c</sup>	+ 6.2	+ 5.9
Total public.....	12.1 <sup>c</sup>	- 4.9	+ 7.4
Foreign trade <sup>1</sup> .....	4.6 <sup>c</sup>	+53.2	+ 2.2
Merchandise exports.....	35.6 <sup>b</sup>	- 1.9	+19.5
Merchandise imports.....	27.7 <sup>b</sup>	- 0.7	+23.7
Excess of exports.....	26.2 <sup>b</sup>	- 1.7	+19.2
Consumer credit outstanding <sup>2</sup> .....	27.6	-14.8	- 8.0
Total credit.....			
Installment credit.....			
Business loans <sup>2</sup> .....			
Cash farm income <sup>3</sup> .....			
Indexes (1947-49 = 100)			
Industrial production <sup>2</sup> .....			
Combined index.....	144 <sup>a</sup>	0.0	+ 1.9
Durable manufactures.....	160 <sup>a</sup>	- 0.6	+10.3
Nondurable manufactures.....	130 <sup>a</sup>	0.0	+ 7.4
Minerals.....	129 <sup>a</sup>	0.0	+ 7.5
Manufacturing employment <sup>4</sup> .....			
Production workers.....	108 <sup>a</sup>	- 0.7	+ 5.6
Factory worker earnings <sup>4</sup> .....			
Average hours worked.....	102	- 1.7	+ 1.0
Average hourly earnings.....	145	0.0	+ 4.9
Average weekly earnings.....	148	- 1.7	+ 5.9
Construction contracts awarded <sup>5</sup> .....	243	- 3.3	+25.1
Department store sales <sup>2</sup> .....	125 <sup>a</sup>	+ 2.5	+ 5.0
Consumers' price index <sup>4</sup> .....	115	- 0.1	+ 0.3
Wholesale prices <sup>4</sup> .....			
All commodities.....	112	+ 0.4	+ 1.5
Farm products.....	84	+ 1.4	- 9.1
Foods.....	98	+ 0.1	- 5.3
Other.....	120	+ 0.3	+ 4.3
Farm prices <sup>3</sup> .....			
Received by farmers.....	83	+ 1.2	- 7.8
Paid by farmers.....	112	+ 0.9	- 0.9
Parity ratio.....	80 <sup>d</sup>	0.0	- 7.0

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for December, 1955; comparisons relate to November, 1955, and December, 1954. <sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1956					1955
	Feb. 25	Feb. 18	Feb. 11	Feb. 4	Jan. 28	Feb. 26
Production:						
Bituminous coal (daily avg.).....thous. of short tons.	1,662	1,675	1,692	1,626	1,737	1,467
Electric power by utilities.....mil. of kw-hr.....	11,277	11,321	11,343	11,540	11,512	9,725
Motor vehicles (Wards).....number in thous.....	148	152	161	167	162	186
Petroleum (daily avg.).....thous. bbl.....	7,184	7,116	7,046	7,081	6,994	6,789
Steel.....1947-49 = 100.....	141	141	142	142	143	127
Freight carloadings.....thous. of cars.....	687	698	684	681	692	635
Department store sales.....1947-49 = 100.....	97	95	97	90	94	93
Commodity prices, wholesale:						
All commodities.....1947-49 = 100.....	112.0	112.1	111.9	112.0	111.7	110.4 <sup>a</sup>
Other than farm products and foods.....1947-49 = 100.....	120.2	120.2	120.2	119.8	119.8	115.7 <sup>a</sup>
22 commodities.....1947-49 = 100.....	88.5	88.6	88.9	89.5	88.8	90.9
Finance:						
Business loans.....mil. of dol.....	26,241	26,271	26,181	26,260	26,211	22,108
Failures, industrial and commercial.....number.....	230	252	236	273	284	178

Source: Survey of Current Business, Weekly Supplement.

<sup>a</sup> Monthly index for February, 1955.



# RECENT ECONOMIC CHANGES

## Farm Income

Net farm income, including government payments and the change in farm inventories, declined by 10 percent in 1955 to \$11 billion. Prices paid by farmers tended downward during the year but at a much slower rate than prices received. The lower prices received and higher production expenses took more out of income than higher output added to it.

The decline in farm income was moderated, in part, by supplemental income earned by farmers in nonfarm jobs. This source of income has been rising steadily since the war, both absolutely and relatively. In 1948 farm income from nonagricultural sources amounted to \$5.1 billion, 21 percent of that year's farm income from all sources. In 1955, when total farm income was lower, income earned off the farm amounted to \$6.1 billion, or 32 percent of total farm income.

The aggregate figures do not give a complete picture for the average farm family, since the farm population has declined along with income. Whereas total farm income from all sources dropped 24 percent between the postwar high in 1948 and 1955, per capita income from all sources dropped only 6 percent (see chart).

## GNP Advance Slows

Over-all business activity continued to increase in the fourth quarter although the pace of the boom slowed. Gross national product moved up to a seasonally adjusted annual rate of \$397 billion. The increase over the third quarter amounted to more than \$5 billion, but this was the smallest advance of the year and reflected cutbacks in consumer expenditures for durable goods.

Private investment rose about \$3 billion during the quarter mainly on the strength of increased inventory investment. The fourth quarter inventory change amounted

to \$5.3 billion, more than double the third quarter rate. In fixed capital lines, a drop of a billion dollars in outlays for new homes more than offset a rise in business expenditures for plant and equipment.

Following a year of decline between mid-1954 and mid-1955, government expenditures increased in the second half of 1955 and in the fourth quarter contributed \$1.4 billion to the advance in gross product.

## GROSS NATIONAL PRODUCT OR EXPENDITURE

(Seasonally adjusted, billions of dollars at annual rates)

	4th Qtr. 1955	3rd Qtr. 1955	4th Qtr. 1954
Gross national product.....	397.3	392.0	367.1
Personal consumption.....	257.2	255.7	241.0
Durable goods.....	34.8	36.9	30.4
Nondurable goods.....	128.8	127.0	122.5
Services.....	93.6	91.8	88.1
Domestic investment.....	63.2	60.5	50.7
New construction.....	32.3	33.2	29.4
Producers' durable equipment.....	25.5	24.9	21.9
Change in business inventories.....	5.3	2.4	-.6
Nonfarm inventories only..	5.1	2.0	-1.0
Foreign investment.....	-.3	.0	.9
Government purchases.....	77.2	75.8	74.5

## INCOME AND SAVINGS

National income.....	n.a.	325.7	303.2
Personal income.....	312.1	306.1	290.8
Disposable personal income.....	276.6	271.7	257.8
Personal saving.....	19.4	16.0	16.8

For the year as a whole, GNP moved up almost \$27 billion to \$387 billion. Consumer expenditures accounted for nearly \$16 billion of the increase, expenditures for producers' durable goods and new construction for \$6 billion, and the shift from inventory liquidation in 1954 to accumulation in 1955 for another \$6 billion. The only major sector in which outlays declined was government, where Federal government expenditures were reduced somewhat more than state and local outlays increased.

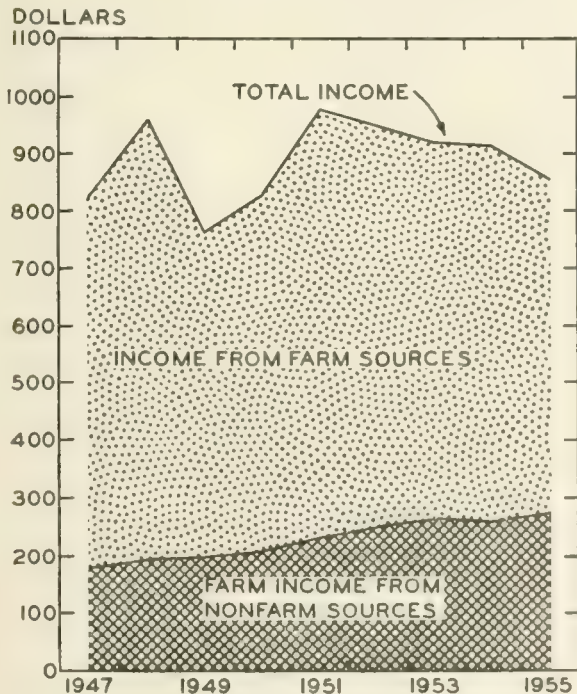
## Production Gains

Industrial production in January held steady at the December level, as a slight decline in durable goods production was offset by increased output of nondurables and minerals. After a rapid advance through the first three quarters of 1955, the rise slowed and total output did not change significantly between September and January.

The advance last year carried production for the year as a whole to a level that was 11 percent above 1954 and 4 percent above 1953. All major industrial groups included in the Federal Reserve's index increased over 1954, although individual industry rates of growth diverged considerably from the average. The advance was led by autos, up 40 percent, with other increases ranging from 1 percent for tobacco to 30 percent for primary metals.

Although the auto makers stole the show, producers of other major consumer durables fared well in the consumers' buying spree last year. Output of major household durables averaged 18 percent above 1954 and matched 1950's record volume. The newer products—television sets, dishwashers, clothes dryers, room coolers—led the advance, but output of washing machines, at 4.3 million units, was also up considerably. Production of television receivers was at an all-time high of 7.8 million sets, 4 percent above the previous record of 1950, and about 15 million radios were turned out, the largest volume since 1948.

PER CAPITA NET FARM INCOME



Source: U. S. Department of Agriculture.

# CONFLICT OVER TRANSPORT POLICY

D. PHILIP LOCKLIN, *Professor of Economics*

In July of 1954 the President set up an advisory Committee on Transport Policy and Organization under the chairmanship of Secretary of Commerce Weeks to review Federal transportation policies and to submit recommendations. This committee made its report in April, 1955. The report is commonly called the Cabinet Committee Report, or the Weeks Report.

Release of the report precipitated a flood of oral and written statements, some favoring, some opposing the recommendations. The railroad industry, although disappointed that the report did not advocate, nor even discuss, certain measures that have long been part of its legislative program, has almost universally supported such recommendations as were made. The railroads have subsequently urged adoption of the major recommendations through advertisements and the distribution of pamphlet literature. The motor-carrier industry, on the other hand, has vigorously opposed the advisory committee's recommendations and is girding itself for a battle which, it claims, is for its very existence. The inland water carriers have also taken a firm stand against the report.

## Is Regulation Obsolete?

The report starts out by declaring that we have witnessed a transportation revolution within the short space of one generation, and that the transportation industry, characterized by a virtual railroad monopoly in 1920 except to the limited extent that water transport was available, has now become a highly competitive industry. The truth of this statement cannot be denied, although there is still much rail traffic for which there is little or no competition by other modes of transport.

The basic theme of the report is that regulation, developed when the railroads had a virtual monopoly of transport, has become obsolete. The major recommendation of the committee is that greater reliance be placed on competitive forces in rate-making.

The report creates the erroneous impression that Congress, in the past, has been concerned only with preventing monopolistic exploitation by carriers and has not faced up to the new situation arising from intense and growing competition in the industry.

In 1920 Congress was clearly concerned with problems arising from competition between railroads when it granted the Interstate Commerce Commission the minimum-rate power. In 1935, when it enacted the Motor Carrier Act, Congress was acutely aware of the existence of competitive excesses on the part of motor carriers. The Declaration of National Transportation Policy, enacted in 1940, demonstrates clearly an awareness of the growing intensity of the competitive struggle between different modes of transport. At that time, also, Congress purposely increased the powers of the Commission to deal with competitive rate-cutting. Congress, in the period between 1920 and 1940, may have adopted the wrong policies in dealing with the growing competitive situation. That is arguable, but there is no doubt that Congress had recognized the changing situation, had given the problem much attention, and had attempted to deal with it. Congress believed that unrestricted competition between carriers breeds ruinous rate-cutting and creates unjust discrimination and undue preference, and hence that competitive rate-cutting should not be beyond public control.

The Cabinet Committee would weaken these controls and permit little interference with competitive rate-cutting. Then, in the apparent belief that competition is sufficiently widespread to protect the public from excessive rates, it would also weaken the Commission's power to prescribe maximum reasonable rates.

The proposal to restrict the Commission's power to prevent competitive rate reductions arises from the belief that the Interstate Commerce Commission has not given the carriers sufficient freedom to adjust their rates to meet competition. There is some justification for this criticism, but it is the present writer's opinion that in the great majority of cases involving this issue, the Commission has given the carriers wide latitude in adjusting rates to meet competitive situations.

## Past Policy on Rate Changes

The power to initiate rate changes rests with the carriers, but when changes in rates are filed with the Commission, it may, either on request or on its own motion, suspend the proposed rates for a limited time and initiate an investigation into their lawfulness.

In recent years a large proportion of requests for suspension have involved rate reductions, the requests coming from competing carriers. In 1954-55, 3,654 rate reductions were protested. Motor and water carriers commonly oppose reductions proposed by railroads; railroads commonly oppose reductions published by motor and water carriers; motor carriers may protest rate reductions proposed by other motor carriers; and sometimes railroads oppose reductions proposed by other railroads.

The Commission refuses to suspend the proposed rates in a large number of the instances in which suspension is requested. In other instances the rates are suspended and an investigation instituted, and many are carried through to a final determination of the lawfulness of the suspended rates. In these cases the burden of proof is upon the carriers proposing the change, whether upward or downward. The Commission may find the proposed rates justified; it may find them not justified, leaving the old rates in effect; or it may prescribe the maximum or minimum, or the maximum and minimum, or the exact rates to be charged in lieu of those proposed.

Two conditions must ordinarily be met before the Commission will authorize reduced rates to meet the competition of other carriers. These are (1) that the reduced rates are "reasonably compensatory," and (2) that they are no lower than necessary to meet the competition encountered. The first requirement is obviously sensible, at least to the extent that it means that the rates must cover direct or out-of-pocket costs of the particular service and make some contribution to fixed or overhead costs.

The second requirement is also justified in the interest of preserving carrier revenues. To "meet competition" does not necessarily mean to establish a rate parity with a competitor, but to make whatever reduction may be necessary to share in the traffic. In many cases the railroads are permitted to charge less than competing motor carriers because of some disadvantage in the rail service. In cases involving water carriers, the railroads are often not allowed to charge as low a rate because the superiority of rail service makes equalization unnecessary.

Although the Commission has given the carriers wide



latitude in adjusting rates to meet competition, there are numerous cases in which it has sought for a rate adjustment that would give each mode of transport in a particular situation a "fair share" of the traffic. Critics of the Commission's policy, particularly the railroads, feel that such action is entirely unwarranted and that it prevents the railroads from exploiting to the full any cost advantage which they may have over motor carriers. Furthermore, this line of decisions seems to be inconsistent with other decisions, in which the Commission has held that it should not compel a carrier to maintain rates necessary to protect another carrier; in fact, there is language in the Act designed to prevent the Commission from doing so. Those who feel that the Commission has overstepped its proper bounds in this respect believe that the difficulty lies partly in a statement in the so-called Declaration of National Transportation Policy which requires the Commission to prevent "unfair and destructive competitive practices."

Although not pointed out by the Cabinet Committee, national defense considerations, also mentioned in the Declaration of Policy, may require the Commission to give more protection to competing carriers than is justified on purely economic grounds. At least two decisions of the Commission permitting railroads to reduce rates to meet competition of other modes of transportation have been set aside by the courts on the grounds that adequate consideration had not been given to the possibility that the proposed rates might injure, or even destroy, competing motor carriers and barge lines whose services might be essential for national defense.

### New Proposals Affect Competitive Positions

The Cabinet Committee proposes to bring about greater freedom in competitive rate-making by a number of changes in the Act. It would completely rewrite the Declaration of National Transportation Policy; it would liberalize the Long-and-Short-Haul Clause; it would deprive the Commission of power to fix a precise rate, leaving it only the power to prescribe a maximum or a minimum rate; it would deny the Commission authority to fix a minimum rate unless a rate is "noncompensatory"; it would impose restrictions on the rate suspension power of the Commission; and when proposed reductions are suspended, it would place the burden of proof upon the protesting carriers.

Space does not permit a discussion of the merits and weaknesses of all of these proposed modifications. Discussion will be limited to the definition of a "noncompensatory" rate as one that fails to cover "the direct ascertainable cost of producing the service." This apparently means "direct" or "out-of-pocket" costs. As that term is now used by the Commission, it approximates long-run variable cost, and although considerably lower than fully distributed cost in the case of the railroads, it is not so low as a short-run concept of out-of-pocket costs.

Under the definition of a noncompensatory rate, the carriers would be given the right to cut rates without interference as long as the rates covered out-of-pocket costs. Here is found the main reason for motor-carrier and water-carrier opposition to the Cabinet Committee proposals, for these provisions give the railroads a decided advantage in the rate-cutting game.

The disadvantage of the motor and water carriers arises from the fact that their costs are largely variable—at least 90 percent in the case of motor carriers—and hence they cannot cut rates very far below a full-cost

basis without going below out-of-pocket costs. The railroads, on the other hand, with a smaller proportion of variable costs—currently considered to be 78 percent—can cut rates considerably below a full-cost basis and still have them cover direct or out-of-pocket costs. Railroads have always had this advantage over motor carriers in a competitive struggle, but under the proposed legislation they could exploit it without interference.

The motor and water carriers can hardly be expected to contemplate this possibility with indifference. Its seriousness to the motor carriers becomes even more apparent when it is realized that a very large proportion of motor-carrier traffic is competitive with the railroads, but only a small part of the railroads' traffic is competitive with the motor carriers. Notwithstanding the concern of the motor carriers over the Cabinet Committee proposals, it is an exaggeration to say that their existence is at stake. The superiority of motor transport for many services and the increasing dependence of industries upon it mean that, regardless of the rate policies of the railroads, motor-carrier operations will continue to be important. The proposals, however, if enacted, might cause a considerable shift of traffic from road to rail.

### Freedom to Lower Rates

From a strictly economic point of view, something can be said for giving the railroads greater leeway in making competitive rates than has been allowed in the past. If railroads can carry certain traffic at lower direct or out-of-pocket costs than the motor carriers they might well be permitted to do so, since it would result in a smaller total expenditure of resources. The motor carriers, furthermore, can more readily adjust their investment in facilities to a reduction in volume of traffic than the railroads. But even if this conclusion is accepted, it by no means follows that the Cabinet Committee proposals with respect to minimum rates are desirable.

Fundamentally, the issue is whether the out-of-pocket-cost limitation should be the only limitation on competitive rate reductions. Obviously, mere out-of-pocket-cost rates are of no benefit to rail or other carriers; rates should make some contribution to fixed or overhead costs. Obviously, also, railroads and other carriers should not reduce rates below their normal basis any further than necessary to meet the competition which they encounter. To reduce them lower than necessary to meet competition unduly depletes their revenues, and may enable them to eliminate competitive services which it is in the public interest to retain. Discrimination is also created between persons and places that is unjustifiable and highly objectionable. It is the writer's view that the Commission should continue to have the power to stop competitive rate-cutting before out-of-pocket costs are reached.

Permitting out-of-pocket-cost rate-cutting should be considered also with respect to its effect on *intra-agency* competition. The Cabinet Committee was undoubtedly thinking of *interagency* competition, particularly the competition of railroads with motor and water carriers and of the ability of the railroads to recover considerable traffic if given a freer hand to cut rates where competition is encountered. But if out-of-pocket cost is to become the sole standard for fixing minimum rates, rail carriers can reduce rates to this basis wherever they compete with each other, thus taking us back to the days of ruinous competition between railroads and unwarranted discrimination between shippers and places. The Commission was given the minimum-rate power in 1920

to prevent railroad rate-cutting of this nature, and it has exercised this power on numerous occasions.

Under the minimum-rate provisions advocated by the Cabinet Committee, the railroads would be given a free hand to engage in rate wars with each other, and motor carriers would have the same right in their struggles with each other, and so would the carriers by water. In view of the widespread competition within each mode of transport, the gravitation of competitive rates to an out-of-pocket cost basis would seriously affect carrier revenues and discriminate between shippers enjoying the out-of-pocket rates and those less fortunately situated.

Although the Cabinet Committee Report calls for retention of the present prohibitions of unjust discrimination and undue preference and prejudice, there is grave danger that limiting the Commission's power to interfere with rate reductions only when they are below out-of-pocket costs would seriously weaken the power to prevent unjustifiable discrimination. Under existing legislation it is generally not considered undue preference and prejudice for a carrier to reduce rates to meet competition of a low-cost carrier where, and only where, it encounters such competition. But in order to prevent undue preference and prejudice the Commission must have power in such situations to do two things: (1) prevent greater reduction than is necessary to meet the competition encountered, and (2) prevent the low-cost carrier from also engaging in out-of-pocket-cost rate-cutting. The Cabinet Committee proposals would apparently prevent the Commission from doing either of these things.

### Freedom to Raise Rates

The proposal to restrict the Commission's power to fix a maximum reasonable rate would be accomplished by providing that rates could not be forced by the Commission "below the full cost of performing the service to which such rates apply." Thus fully allocated costs, or fully distributed costs, become the standard. This gives to fully allocated costs a significance which they do not have in economics.

Fully allocated costs involve the assignment to particular services of a mass of fixed and overhead costs which may be reasonable if the traffic will bear such an assignment but which are at war with reality if the traffic will not stand it. Rates on low-grade traffic normally do not cover fully allocated costs, because the traffic will not stand higher rates, but will stand rates that contribute something to fixed and overhead costs.

Under traditional standards of reasonableness de-

veloped under existing law, rates may be found unreasonable, although not covering fully allocated costs, if they are unduly restrictive of the movement of traffic, or if they are out of line with rates on other commodities having similar transportation characteristics, or if they are unjustifiably in excess of rates on other movements of the same commodity. To deprive the Commission of power to find a rate unreasonably high unless it exceeds fully allocated cost would be, in effect, to place the rates on many important commodities beyond the jurisdiction of a possible Commission finding of unreasonableness. A study by the Commission's Bureau of Accounts and Cost Finding shows that in 1953 a large number of commodities were carried at carload rates which, as a whole, did not cover the fully distributed costs of transporting them. Among these commodities were the following: wheat flour, cereal food preparations, hay and straw, soybean and vegetable oil cake, most fresh fruits and vegetables, frozen fruits and vegetables, livestock, coal, coke, ore, sand and gravel, crushed stone, crude petroleum, phosphate rock, sulphur, logs, pulpwood, lumber, veneer plywood, gasoline, fuel and road oils, brick, sewer pipe, building woodwork and millwork, and animal and poultry feed.

There were doubtless rates on particular movements of these commodities that exceeded fully distributed costs, but as a whole, rates on each of the commodities mentioned, when carried in carloads, did not cover fully allocated costs. In fairness to the Cabinet Committee proposal, however, it should be pointed out that the Commission's cost figures included an allocation of passenger-train and less-than-carload deficits, which the Cabinet Committee would exclude from cost calculations. The Commission's figures demonstrate nonetheless that it would be powerless to reduce rates on many commodities regardless of how burdensome they might be.

### Conclusion

There is justification for the belief that the carriers should be permitted more leeway in adjusting their rates to meet competition than has been allowed in some cases, but serious question arises concerning the wisdom of some of the specific changes in the law suggested in the report.

Space does not permit a discussion of all of these recommendations, nor of still others which we have not mentioned here. Some of the recommendations deserve support. Congress, however, should give careful consideration to each and every one of the proposals lest hurried action lead to unwise legislation and even more serious problems later on.

### Foreign Trade Policy

(Continued from page 2)

what is wanted. The producers of armaments and the builders of steel plants, who are completing programs on which they have been engaged, may well contemplate shifting their field of operations to the underdeveloped countries of Asia and Africa. Opportunities for this will be enhanced in the event that takings of raw materials by the West are curtailed in a recession.

The existence of such circumstances does not justify all practices, of course, and it may well be that some of the arrangements encountered will represent forms of unfair competition. This, however, is a two-sided problem. We open ourselves to charges of unfairness by decisions like that on cotton.

To avoid difficulties of this kind it would be necessary

to establish in advance just what constitutes unfair competition. Perhaps an agreement could be reached with other trading countries on a definition of actions to be ruled out. To accomplish this might mean that we should have to reverse some decisions already made. This might still be well worth our while. Only if something of this sort is done shall we be in a position to enter legitimate objections to practices we do not like, whether undertaken by Allies of the West or opponents of the East. Otherwise we shall have to compete with all as best we are able.

In any case, our efforts on the trade front should constantly look toward the maintenance of sound commercial policy. If we attempt to retaliate for every measure of restriction and discrimination, international economic relations are bound to deteriorate, perhaps into all-out economic warfare.

VLB



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Mines of Knowledge

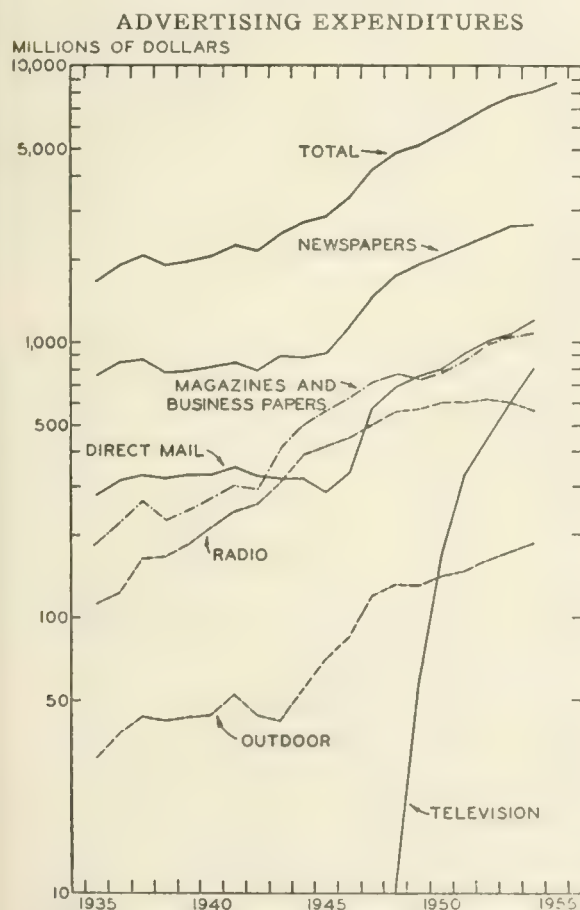
Further advances in the capacities of electronic computers are the results of two new products. One is a new magnetic information storage drum made by the Remington Rand Univac Division of Sperry Rand Corporation; it has a capacity of 42,000 pieces of information.

A magnetic recording and playback head, for use in recording television programs as well as in storing information for computers, is being manufactured by the Clevite Corporation of Cleveland, Ohio. The head can record about 20,000 cycles on an inch of tape and over four million cycles a second.

### Advancing Advertising

Advertising outlays by American business hit a new peak of \$8.8 billion in 1955. Expenditures for this purpose in 1956 are expected to top the \$9 billion mark, according to *Printers' Ink*.

Although annual advertising expenditures have shown a fivefold increase in the past two decades, they have failed to keep pace either with gross national product or with total business sales. The main reasons for this were the wartime restrictions which affected the volume of advertising. Shortages of goods and rationing lessened the need to shout one's wares, and at the same time newspaper, direct mail, and outdoor ads were affected by the paper and gasoline shortages (see chart). Only radio advertising grew unabated during the war years.



Source: *Printers' Ink*, *Advertisers' Guide to Markets* in 1956

After the war, advertising volume jumped sharply and grew from 12 percent of total business sales in 1945 to 17 percent in 1955. The advent of television was undoubtedly a major stimulant to total expenditures, although it was depressing to the radio advertising business.

### Office Aids

Interchangeable type is one of the new features of the 1956 Remington Standard typewriter. The typist herself can change one or more characters on her machine quickly and easily, adding special signs and foreign letters for temporary or permanent use. The type was developed by Sperry Rand Corporation, 315 Fourth Avenue, New York 10.

SoundScriber Corporation, 146 Munson Street, New Haven 9, Connecticut, has designed a small, portable dictating and recording machine specifically for the traveling businessman. Weighing only six pounds, the instrument will fit easily into a brief case or the glove compartment of a car. The plastic disks can be transcribed on any SoundScriber dictating instrument, and they are also playable on any 33 $\frac{1}{3}$  rpm home phonograph.

### Food Good and Hot

Machine-made hot sandwiches are available with a new electronic device. With infrared rays a ready-made pre-wrapped sandwich can be heated and the bread toasted in a matter of moments. Manufactured by Daniel H. Sheeler and Sons, Inc., 190-42 112th Avenue, St. Albans 12, New York, the "Infra Red Sandwich Bar" is available on loan through food commissary distributors to large purchasers of their sandwiches and hot dogs.

A home appliance to keep meals hot and flavorful for hours is being marketed by Toastmaster Products, McGraw Electric Company, Elgin, Illinois. Called the "Hot-Food-tainer," the unit is a two-drawer stainless steel warming unit which can be built into kitchen cabinets. A moisture control eliminates the possibility of drying, and circulation of the hot air on all six sides of the drawer maintains uniform heat.

### Family Economics

Recently inaugurated by the Council on Consumer Information is a series of pamphlets on consumer financial problems. The first of the series, *What You Should Know About the Law of Estates*, by Leland J. Gordon and L. James Gordon, deals with such subjects as the need for and provisions of a will, other legal steps regarding estate handling, and associated problems.

*Helping You Plan Your Life Insurance Program*, by Charles E. Rogers and Marguerite C. Burk, outlines the steps in planning such a program, discusses the merits and costs of different types of policies, and analyzes the relations of protection needs and available resources. The booklet also points out what to look for in shopping around for a policy, discussing the types of companies and the many common "special" provisions.

Both bulletins are available from the Council on Consumer Information at either Miami University, Oxford, Ohio, or State Teachers College, St. Cloud, Minnesota. The charge for single copies is 50 cents, and there are special rates for larger quantities.

# LOCAL ILLINOIS DEVELOPMENTS

Business continued at high levels during January despite seasonal declines in department store sales and sales of life insurance. Construction contract awards soared 63 percent over their lagging December level, and most other major indicators held fairly steady.

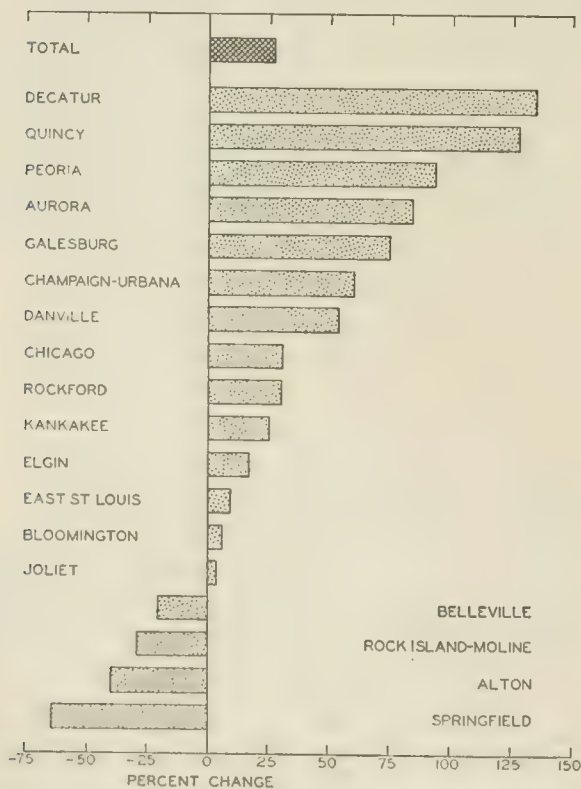
## Building Remains Strong

The pace of Illinois building continued to rise during the past year as the valuation of permits issued rose 27 percent over 1954. Increases were widespread though the actual amounts varied considerably by area, as is evident in the accompanying chart. Most cities in the central part of the State registered large gains. In northern Illinois the growth was about average for the State, but in the south growth was relatively small or declines occurred.

Occasional large projects accounted for most of the substantial swings. In Springfield, for example, a permit was issued in 1954 for a \$9 million office building for the State of Illinois; the lack of any similar items accounted for much of the 64 percent decline shown on the chart. In contrast, Decatur's extensive development of commercial facilities was an important factor behind its 135 percent increase.

Building permits issued in January rose substantially over both December and January, 1955. The fantastic rise for Belleville, shown on page 11, resulted from the issuance of permits for a hospital, an addition to the high school, a department store, and remodeling St. Peter's Cathedral.

**VALUATION OF BUILDING PERMITS**  
Percent change, 1954 to 1955



Source: U. S. Department of Labor and local sources.

## Livestock Inventory

The value of livestock and poultry on farms in Illinois declined 8 percent during 1955 to \$539 million on January 1, 1956, according to the Illinois Cooperative Crop Reporting Service. Actually, the number of hogs on farms rose 10 percent to 6.3 million, but a 42 percent drop in price resulted in an over-all decline of 35 percent in the value of hogs on farms.

Despite record cattle shipments during 1955, the number of cattle on farms rose slightly, to more than 4 million. The increase came in beef cattle, with the number of milk cows declining a little. The movement in prices was just the reverse, but the rise in milk-cow prices was more than enough to offset the decline in beef prices and produce a 4 percent over-all gain in value (to \$387 million).

Smaller numbers and lower prices brought the value of sheep in the State down 4 percent from January 1, 1955. A 20 percent advance in the prices of horses and mules, even though their numbers continued to dwindle, raised the value to slightly more than a year ago. Poultry inventories bolstered the livestock data somewhat as prices for both chickens and turkeys showed significant increases during the year.

## Water Plant Expansion

To combat the combined effects of drought conditions and increasing water use in both homes and factories, many cities in Illinois have added substantially to their water systems. New wells and enlarged storage capacity were prime projects, as well as improved treatment facilities.

In Mount Vernon, a new storage tank was built and one of the reservoir dams was raised to increase capacity. New wells were constructed at Shelbyville, Mount Carmel, and Decatur. A 23-mile supply line was installed to connect Jacksonville to wells near the Illinois River. Bloomington, East St. Louis, and Granite City also added substantially to their plant capacities.

## Earnings Record

The end of 1955 witnessed, among other things, a new high in earnings of factory workers in Illinois—\$86.16 per week, or \$2.06 per hour. The average annual gain of more than \$7.00 per week for all manufacturing industries was fairly widespread, although workers in durable goods plants fared somewhat better than those in soft goods. Illinois wages continued to be substantially higher than those for the nation as a whole.

With the new minimum wage law taking effect this month, it is probable that average wages in the State will rise to new heights. Estimates by the United States Department of Labor put the number of Illinois workers to be directly affected at 30,000, and to maintain spreads, it is likely that many workers now earning over the \$1 minimum will also receive pay boosts.

Private nonfarm employment in January, 1956, stood at 3,016,500, a high for the month second only to January, 1954, when 6,000 more people were working. Although employment was down from its seasonal December peak as a result of cutbacks in trade and other seasonal industries, the decline was smaller than usual. As a result, the increase from year-ago levels widened to 117,200, the largest in the current upturn.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

January, 1956

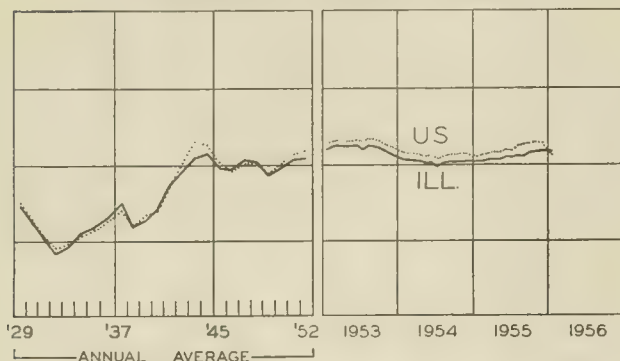
		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS.....</b>							
		\$28,900 <sup>a</sup>	1,109,070 <sup>a</sup>	\$519,511 <sup>a</sup>		\$16,419 <sup>a</sup>	\$13,647 <sup>a</sup>
Percentage change from.....	{ Dec., 1955.	+83.2	+2.0	+7.8	-53	+5.9	-31.6
	{ Jan., 1955.	+67.8	+8.8	+5.4	+3	+25.9	+4.3
<b>NORTHERN ILLINOIS</b>							
<b>Chicago.....</b>							
		\$21,624	839,609	\$376,674		\$15,161	\$11,778
Percentage change from....	{ Dec., 1955.....	+87.0	+1.7	+12.3	-53	+6.9	-31.1
	{ Jan., 1955.....	+64.2	+7.3	+6.0	+4	+27.2	+4.0
<b>Aurora.....</b>							
		\$ 137	n.a.	\$ 7,621		\$ 60	\$ 131
Percentage change from....	{ Dec., 1955.....	-4.0		+5.8	-56	-3.4	-24.4
	{ Jan., 1955.....	-44.8		+3.2	-1	+15.5	+19.3
<b>Elgin.....</b>							
		\$ 252	n.a.	\$ 5,874		\$ 36	\$ 95
Percentage change from....	{ Dec., 1955.....	+117.2		+2.8	-58	-5.9	-39.6
	{ Jan., 1955.....	+159.8		+11.0	+5	+9.4	-1.1
<b>Joliet.....</b>							
		\$ 934	n.a.	\$11,497		\$ 72	\$ 94
Percentage change from....	{ Dec., 1955.....	+834.0		+10.5	n.a.	-10.9	-46.4
	{ Jan., 1955.....	+300.9		+1.4		+8.6	+7.5
<b>Kankakee.....</b>							
		\$ 50	n.a.	\$ 4,901		n.a.	\$ 42
Percentage change from....	{ Dec., 1955.....	-32.4		-2.8	n.a.		-42.1
	{ Jan., 1955.....	-55.0		-6.1			+21.6
<b>Rock Island-Moline.....</b>							
		\$ 663	24,835	\$ 9,051		\$ 86 <sup>b</sup>	\$ 152
Percentage change from....	{ Dec., 1955.....	+178.6	-0.4	-3.6	n.a.	-9.9	-36.5
	{ Jan., 1955.....	+118.8	+6.9	+1.1		+4.8	-2.4
<b>Rockford.....</b>							
		\$11,275	41,034	\$16,164		\$ 167	\$ 228
Percentage change from....	{ Dec., 1955.....	+32.5	+3.8	-4.3	-64 <sup>c</sup>	-9.5	-33.7
	{ Jan., 1955.....	+94.7	+19.3	+3.6	-1 <sup>c</sup>	+17.7	+8.6
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington.....</b>							
		\$ 77	8,351	\$ 4,779		\$ 63	\$ 91
Percentage change from....	{ Dec., 1955.....	-86.0	+4.2	-16.4	n.a.	-12.8	-30.4
	{ Jan., 1955.....	+30.5	+13.6	-6.5		+10.4	+14.8
<b>Champaign-Urbana.....</b>							
		\$ 490	10,779	\$ 7,488		\$ 65	\$ 92
Percentage change from....	{ Dec., 1955.....	+220.3	-0.6	-0.3	n.a.	+4.2	-35.5
	{ Jan., 1955.....	+231.1	+7.1	+3.6		+18.0	+8.6
<b>Danville.....</b>							
		\$ 161	10,990	\$ 6,181		\$ 49	\$ 65
Percentage change from....	{ Dec., 1955.....	-25.5	+4.9	-7.2	-62	-5.8	-31.6
	{ Jan., 1955.....	-22.6	+5.8	+9.5	+9	+9.4	+7.2
<b>Decatur.....</b>							
		\$ 421	31,403	\$11,285		\$ 112	\$ 118
Percentage change from....	{ Dec., 1955.....	-42.9	-4.0	-3.3	-56 <sup>d</sup>	-7.7	-33.8
	{ Jan., 1955.....	-10.2	+23.5	+7.2	-6 <sup>c</sup>	+14.2	+12.0
<b>Galesburg.....</b>							
		\$ 92	8,306	\$ 4,619		n.a.	\$ 38
Percentage change from....	{ Dec., 1955.....	-8.0	+5.6	+6.7	n.a.		-37.5
	{ Jan., 1955.....	+4.5	+12.6	+12.7			+6.2
<b>Peoria.....</b>							
		\$ 277	54,704 <sup>e</sup>	\$17,046		\$ 217	\$ 228
Percentage change from....	{ Dec., 1955.....	-1.4	+5.5	-0.4	-56 <sup>c</sup>	-3.3	-42.2
	{ Jan., 1955.....	-53.1	+11.4	+8.8	+6 <sup>c</sup>	+16.9	-3.8
<b>Quincy.....</b>							
		\$ 125	9,185	\$ 4,599		\$ 41	\$ 76
Percentage change from....	{ Dec., 1955.....	-9.4	+1.1	-10.3	-61	+3.1	-22.7
	{ Jan., 1955.....	+45.3	+7.0	-1.8	-8	+7.8	+25.6
<b>Springfield.....</b>							
		\$ 159	34,376 <sup>c</sup>	\$13,095		\$ 121	\$ 267
Percentage change from....	{ Dec., 1955.....	+3.9	+1.8	10.9	n.a.	+2.4	-22.7
	{ Jan., 1955.....	-58.8	+9.6	+3.0		+16.5	+9.7
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis.....</b>							
		\$ 289	14,007	\$ 9,500		\$ 131	\$ 73
Percentage change from....	{ Dec., 1955.....	+92.7	+10.0	+3.4	n.a.	-1.8	-45.8
	{ Jan., 1955.....	+71.0	+17.6	+3.6		+3.0	-5.5
<b>Alton.....</b>							
		\$ 567	13,686	\$ 4,958		\$ 39	\$ 34
Percentage change from....	{ Dec., 1955.....	+567.1	+6.8	+0.3	n.a.	-11.3	-44.7
	{ Jan., 1955.....	+523.1	+13.8	+8.8		+10.5	+7.7
<b>Belleville.....</b>							
		\$1,307	7,804	\$ 4,181		n.a.	\$ 45
Percentage change from....	{ Dec., 1955.....	+13,522.2	+9.3	-12.0	n.a.		-42.5
	{ Jan., 1955.....	+1,036.5	+23.1	-1.8			+7.0

<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Data are for September, 1955, the most recent available. Comparisons relate to August, 1955, and September, 1954. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

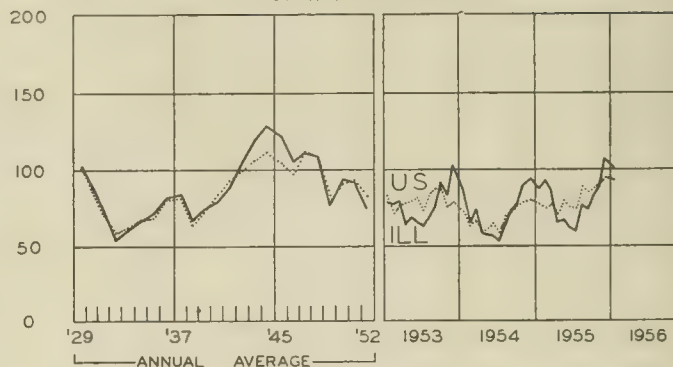
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

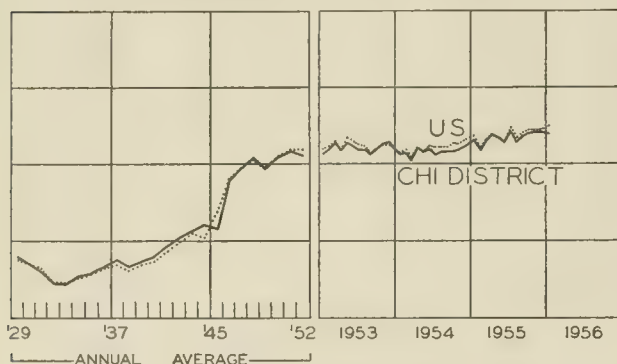
EMPLOYMENT-MANUFACTURING



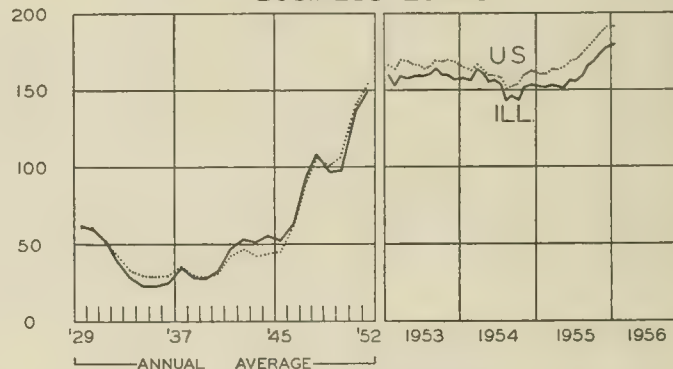
COAL PRODUCTION



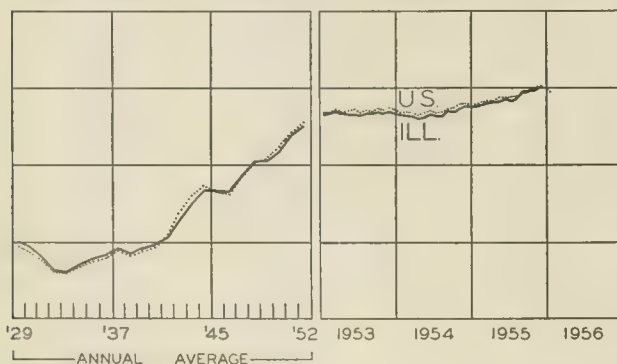
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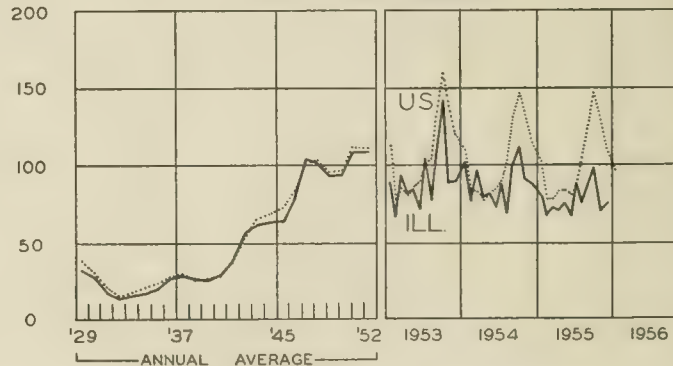
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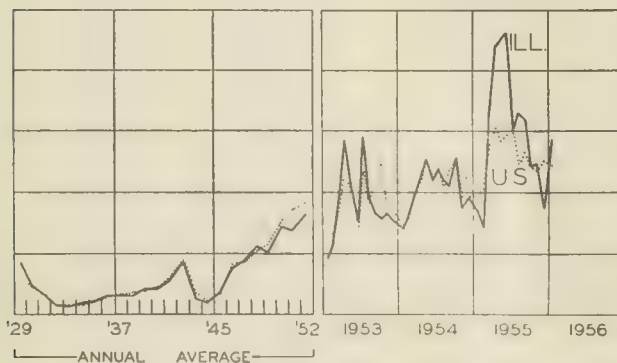
AVG. WKLY. EARNINGS — MANUFACTURING



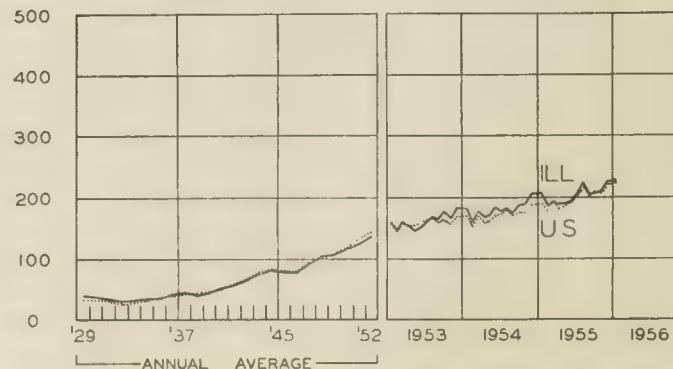
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .  
BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE, UNIVERSITY OF ILLINOIS

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MAY - 2 1956

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## HIGHLIGHTS OF BUSINESS IN MARCH

Business activity was maintained at high levels in March amid an atmosphere of continued optimism. Weaknesses in some sectors were counterbalanced by strength in others. Auto production in March amounted to 576,000 cars, slightly above February but 18 percent less than in March, 1955. Despite this lower rate of production, the demand for steel and other metals remained high. Steel mills operated near 100 percent of capacity throughout the month and further price increases seemed likely in steel, aluminum, and other metals. On the other hand, textile prices weakened in March as growing supplies led to intensified competition between various fibers.

Retailers' Easter sales were somewhat above last year except where shoppers were kept away by storms. After adjustment for the earlier Easter this year, department store sales in March were slightly above a year earlier.

### Employment Advances

The employment situation improved in March as employment moved up and unemployment remained unchanged. The gain carried employment to a new peak of 63.1 million for the month, 2.6 million more than in March, 1955.

The rise between February and March was about equally divided between agricultural and nonagricultural activities, farm employment rising to 5.7 million and nonfarm employment to 57.4 million. Employment in factories remained unchanged at 16.8 million, as moderate gains in food processing and producer goods industries were offset by declines in lumber and some consumer goods industries.

Unemployment was 2.8 million, the same as in February but about 350,000 below unemployment last March.

### How High Is Up?

The stock market broke one record after another in March as the major averages soared to new highs. The Dow-Jones index of 30 industrials rose 27 points during the month, breaking the 500-mark and reaching 520 by early April. A corresponding increase was scored in the railroad stock price index, while the rise in utilities was, as usual, appreciably less.

The principal factors behind the current upswing, which got underway in mid-February, were felt to be the satisfactory corporate earnings reports for the first quarter, even greater earnings prospects for the second quarter, and the continued strength shown by the con-

struction industry and by the plant and equipment expenditure outlook (see below).

### Sales Outlook Optimistic

If businessmen are correct in their anticipations, manufacturers' sales this year should rise 6 percent above their 1955 high while retailers should collect 4 percent more in sales than last year, according to a recent survey by the United States Department of Commerce and the Securities and Exchange Commission.

Machinery manufacturers and utilities are the most optimistic, producers of electrical machinery expecting a 13 percent sales increase on the average, and other machinery producers a 10 percent sales increase. Electric utilities anticipate a 7 percent rise in revenues and gas utilities a 12 percent rise. The only major industry group expecting lower sales this year is the automobile manufacturers, who anticipate a 4 percent decline.

Investment spending this year may rise much more than sales. If businessmen adhere to spending plans reported in the survey, outlays for new plant and equipment should reach a new peak, 22 percent above the 1955 figure. Railroads and many durable goods manufacturing industries plan to increase their capital expenditures this year by 40 percent or more. At the other extreme, non-rail transportation and commercial firms may not raise their outlays much more than 10 percent on the average.

### Inventory Holdings Rise

The value of businessmen's inventories at the beginning of March came to \$83.5 billion. This represented a seasonally adjusted rise of \$0.7 billion during February, and an increase of \$6.2 billion over the past year.

Manufacturers' holdings rose the most during the year, by \$3.6 billion to a total of \$47.1 billion, with the great bulk of the increase reported by durable goods producers. Holdings of both durable and nondurable goods distributors were also up appreciably, though by far the biggest increase was in automobile inventories, which rose 24 percent.

During 1955, the rise in sales more than kept pace with that in inventories. In the first two months of this year, however, inventories moved up a substantial \$1.4 billion while sales actually declined somewhat, so that the over-all stock-sales ratio at the beginning of March, at 1.7, was the same as a year earlier.

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## Revamping Foreign Aid

The dominant problems of foreign economic policy in the postwar period—foreign trade policy and foreign aid programs—will continue as important issues in the years ahead.

Changes in world conditions during the last decade have modified both but have resolved neither. The progress of industrial reconstruction and expansion abroad, which has made some countries vigorous competitors in foreign trade, has reached the point where this country is no longer the one important source of capital available for export. However, the capital requirements of the boom have been so large that the actual quantities of capital exported from other industrial countries have been limited.

### Continuing Need for Aid Programs

Limits to the availability of capital will cease when the boom ends, and export potentials will rise sharply, but it will not be possible to rearrange lines of production and trade quickly enough to sustain activity effectively in most countries. During a world-wide recession, the industrial countries will have capacity to create real capital but lack the markets to keep their capacity busy; and the underdeveloped countries will have surpluses of materials but lack the industry and high incomes to move their materials into consumption.

There can be no doubt that most countries will undertake programs of one kind or another to counter any decline that may occur. They will need imports to support the new programs as well as to carry existing programs through to completion. Some shifting in the areas from which imports are obtained will be possible, but this shifting and other expedients can provide only a partial solution. Efforts to deal with the problem will be hampered everywhere by the drying up of sources of foreign exchange and the need for conserving monetary reserves.

There will be a strong continuing need, therefore, for hard currency—specifically, for gold and dollars. With the appearance of surplus capacity in other parts of the world, the character of the need will change, but it will not be eliminated. This focuses attention on the future of the foreign aid program—the more so because the flow of United States private foreign investments will probably diminish.

## Confusion of Objectives

The question about the aid program is sharpened by deficiencies of the current program. It appears to be rather confused in objectives and remains temporary in nature, being continued from year to year on the basis of short-term extensions. Either of these shortcomings is serious enough by itself. Together they are practically fatal to its success.

The confusion of objectives arises partly from the fact that several different programs, military and economic, are lumped together under the general heading of foreign aid. It would hardly be appropriate here to attempt any appraisal of security needs at distant points or of the military assistance provided to our allies in various areas—though such news items as the request for withdrawal of our troops from Iceland do raise questions of concern to everyone. However, even the programs not primarily of a military character seem to be handled with an eye to strategic advantage; and to the extent that they are not, it is hard to discern any other governing principle in them—unless, indeed, it is mere expediency. We seem at times to be trying to make ourselves popular with everyone not committed to the Communist cause regardless of how much the aid contributes to long-term progress.

The background against which aid programs must be considered may be characterized by two basic facts of the world situation. First, the aspirations of the peoples of the world are much the same everywhere. They may be summarized as peace, improved living standards, and self-determination.

Second, cutting across the demands of these aspirations stands the alignment of world forces. The power-controlling nations are divided into two camps, each bristling with armaments whose ostensible purpose is to deter the other from aggression. The remaining nations, by and large, comprise a group with too little power to indulge in more than local conflict and too little wealth to encourage other nations to take the risks of conquest. Most of the nations in this group are largely indifferent to the struggle of the “great powers” except as it might affect them, and they display a consistent determination to keep themselves from becoming involved in it.

Under these circumstances, our aid programs are perhaps too narrowly viewed in the current cold-war context. By concentrating on the immediate threat, we tend to lose sight of more distant goals. We also tend to place too much of a global interpretation on local disturbances and subsidiary conflicts of interest. If the program is focused primarily on countering developments we regard as Communist penetration, rather than on creating permanent conditions for peaceful progress, the program is bound to fall short of the original conception and cannot produce the desired results.

It is admittedly hard to act in a consistently enlightened manner in a world of revolution. The uncertainty of the outcome of existing disorder imposes the risk that what we give may eventually be used against us. But if we take ideals of democracy and freedom seriously, there is no alternative to taking this risk.

### Extending the Aid Program

The opposition to the aid program builds in large measure on disillusion with the results achieved to date. Its leaders point out the fallacy of attempting to gain the lasting gratitude of other countries by offering grants

(Continued on page 6)



## **ELECTRONICS—THE AGE OF WONDERS**

Electronics is basically that branch of physics which deals with the broad subject of the handling of electrical energy in one form or another. However, the term "electronics" is more specifically used in connection with any product which uses vacuum tubes or transistors, and has become popularly associated with radio, television, and radar.

The electronics industry has grown so rapidly that it has become exceedingly difficult to comprehend what is really happening. New uses for electronic inventions are found each day, and each discovery tends to open up tremendous areas for development. In addition to radar, radio, and TV, some of the many devices using electronics are high-fidelity phonographs, guided missiles, business machines, digital computers, railroad signal systems, lie detectors, Geiger counters, electrocardiographs, X-ray devices, and betatrons.

The recent development of the transistor, a tiny pea-sized device taking only a fraction of the power required by "conventional" vacuum tubes, has created new possibilities for expansion of electronic service. This so-called "electronic midget" is the forerunner of many tiny electronic items yet to come which are expected to mark a new trend in the industry.

### **Born in Chicago**

In 1900 the invention of the audion tube—the three-element vacuum tube—enabled Chicago to claim to be the "birthplace" of the electronics industry. Dr. Lee DeForest, a graduate of Yale University, came to Chicago in 1899 and went to work in the dynamo department at Western Electric Company. At night he taught classes three times a week at the Armour Institute (now the Illinois Institute of Technology) in return for the use of the Institute's laboratory facilities, where he developed his first successful audion tube.

The effect of this invention has been felt all over the world. It had its beginning in the home entertainment industry through the introduction of radio. During World War II, the electron was harnessed to provide military detection, communication, and control devices, and the government became the largest market for electronic products. Radar, sonar, microwave, guided missiles, and new types of communications equipment were developed. In effect, the battle for survival became a battle in electronics.

A more recent development has taken place in the field of industrial-commercial electronics. The introduction of digital computers and other electronic control devices has led to the coining of a new word—automation. Electronic data-processing machines save thousands of worker hours and make possible engineering and computational feats not otherwise possible. Automatic factories, warehouses, and stores have become a reality, and many repetitive, fatiguing, and hazardous operations have been eliminated. The result has been, and will continue to be, a higher standard of living based upon more production per man-hour than ever before.

### **The Industry**

During the past fifteen years the electronics industry has become a giant. Today, there are over 2,500 manufacturers of electronic equipment, 3,700 radio and TV broadcasters, and more than 150,000 wholesale distributors, retail dealers, and service outlets.

In 1955 over 1.7 million workers were employed directly by the industry and more than 3 million served it indirectly. Sales of electronic products totaled \$5.3 billion (at factory prices), and parts and components for repair and home assembly amounted to \$680 million. Almost again as much was derived from related distributive and service trades, which are important in this field. Dealer's mark-up created an additional revenue of approximately \$2.2 billion, while TV and radio broadcasting revenue amounted to nearly \$1.5 billion, and repairman service charges were estimated at \$930 million. In the aggregate, therefore, the electronics industry has become nearly an \$11 billion business.

### **Electronic Center**

The Chicago area electronics industry encompasses hundreds of plants, employs well over 130,000 workers, and its 1955 output of nearly \$2 billion was by far the largest in the country. Electronic sales of three Chicago manufacturers—Admiral, Motorola, and Zenith—amounted to \$582 million. Other firms with substantial production are Hallicrafters, Raytheon, Sentinel, Stewart-Warner, and Webster-Chicago, to name but a few. In addition, the big three of the communication systems—Automatic Electric, Kellogg Switchboard and Supply, and Western Electric—have large plants in Chicago.

The immense size and importance of the Chicago electronics industry can be emphasized by the fact that during World War II, 35 percent of all electronic equipment for the armed forces came from the Chicago industrial district. Today, with continuing high government expenditures for defense, Chicago has continued to play an important role.

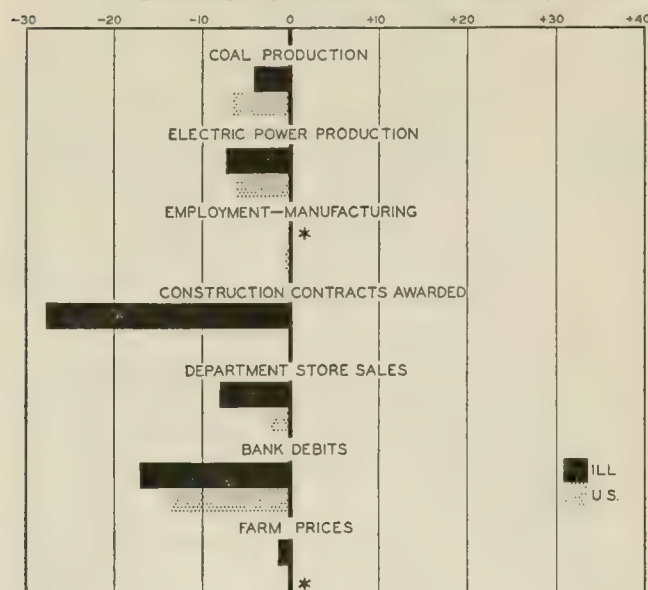
Producing about one-third of the nation's total output, Chicago appears to have a high growth potential and is currently undisputed leader in the field. However, competition is keen, and among the more promising contenders are the Philadelphia-Camden area, second in total electronic production, and the Los Angeles area, which boasts second place nationally as the center of electronic research and development. The latter, the guided missile and electronic computer headquarters for the country, produced nearly one billion dollars of electronics during 1955, and experienced a 177 percent increase in electronic employment during the past five years as compared with 40 percent for Chicago. With increasing coast-to-coast competition, and a continued migration of workers and industry to the Los Angeles area, Chicago may eventually find it difficult to lay claim to supremacy in the electronic field though it is bound to remain a major center for the industry.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes January, 1956, to February, 1956



\* No change.

## ILLINOIS BUSINESS INDEXES

Item	February 1956 (1947-49 = 100)	Percentage Change from	
		Jan. 1956	Feb. 1955
Electric power <sup>1</sup> .....	209.7	- 7.5	+12.7
Coal production <sup>2</sup> .....	96.8	- 4.1	+ 4.0
Employment—manufacturing <sup>3</sup> .....	108.6	+ 0.0	+ 6.0
Weekly earnings—manufacturing <sup>3</sup> .....	149.3 <sup>a</sup>	- 0.8	+ 8.0
Dept. store sales in Chicago <sup>4</sup> .....	110.0 <sup>b</sup>	- 3.5	+ 2.8
Consumer prices in Chicago <sup>5</sup> .....	118.3	+ 0.2	+ 1.0
Construction contracts awarded <sup>6</sup> .....	206.0	-28.3	+44.8
Bank debits <sup>7</sup> .....	155.4	-17.3	+10.9
Farm prices <sup>8</sup> .....	73.0	+ 1.4	-13.1
Life insurance sales (ordinary) <sup>9</sup> .....	209.1	+ 1.3	+23.0
Petroleum production <sup>10</sup> .....	121.7	- 8.2	+11.9

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.  
<sup>a</sup> January data; comparisons relate to December, 1955, and January, 1955. <sup>b</sup> Seasonally adjusted.

## UNITED STATES MONTHLY INDEXES

Item	February 1956	Percentage Change from	
		Jan. 1956	Feb. 1955
Personal income <sup>1</sup> .....	313.1 <sup>a</sup>	+ 0.1	+ 6.8
Manufacturing <sup>1</sup> .....	326.4 <sup>a</sup>	+ 0.7	+10.6
Sales.....	46.8 <sup>a, b</sup>	+ 1.1	+ 8.1
Inventories.....	11.8	- 9.1	- 6.5
New construction activity <sup>1</sup> .....	12.5	- 0.7	+ 8.9
Private residential.....	8.2	- 4.5	- 1.4
Private nonresidential.....	15.2 <sup>c</sup>	- 8.9	+ 9.4
Total public.....	12.9 <sup>c</sup>	+ 5.8	+23.3
Foreign trade <sup>1</sup> .....	2.3 <sup>c</sup>	-48.8	-33.1
Merchandise exports.....	35.3 <sup>b</sup>	- 0.9	+19.5
Merchandise imports.....	27.8 <sup>b</sup>	+ 0.1	+23.4
Excess of exports.....	26.2 <sup>b</sup>	+ 0.1	+18.7
Consumer credit outstanding <sup>2</sup> .....	n.a.		
Total credit.....			
Installment credit.....			
Business loans <sup>2</sup> .....			
Cash farm income <sup>3</sup> .....			
Indexes (1947-49 = 100)			
Industrial production <sup>2</sup> .....	143 <sup>a</sup>	0.0	+ 7.5
Combined index.....	159 <sup>a</sup>	- 0.6	+ 8.2
Durable manufactures.....	129 <sup>a</sup>	0.0	+ 6.6
Nondurable manufactures.....	131 <sup>a</sup>	+ 0.8	+ 6.5
Minerals.....			
Manufacturing employment <sup>4</sup> .....	107 <sup>a</sup>	- 0.9	+ 4.3
Production workers.....			
Factory worker earnings <sup>4</sup> .....	102	0.0	+ 0.5
Average hours worked.....	145	0.0	+ 4.3
Average hourly earnings.....	148	0.0	+ 4.8
Average weekly earnings.....	243	+ 0.1	+17.6
Construction contracts awarded <sup>5</sup> .....	119 <sup>a</sup>	- 4.0	+ 6.3
Department store sales <sup>2</sup> .....	115	0.0	+ 0.3
Consumers' price index <sup>4</sup> .....			
Wholesale prices <sup>4</sup> .....			
All commodities.....	112	+ 0.4	+ 0.8
Farm products.....	86	+ 2.3	- 7.6
Foods.....	99	+ 0.7	- 4.1
Other.....	121	+ 0.1	+ 4.1
Farm prices <sup>5</sup> .....			
Received by farmers.....	83	0.0	- 7.8
Paid by farmers.....	112	0.0	+ 1.8
Parity ratio.....	81 <sup>d</sup>	+ 1.3	- 5.8

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for January, 1956; comparisons relate to December, 1955, and January, 1955.  
<sup>d</sup> Based on official indexes, 1910-14 = 100. n.a. Not available.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1956					1955
	Mar. 24	Mar. 17	Mar. 10	Mar. 3	Feb. 25	Mar. 26
Production:						
Bituminous coal (daily avg.).....	1,655	1,538	1,588	1,647	1,662	1,318
Electric power by utilities.....	11,134	11,202	11,133	11,199	11,277	9,907
Motor vehicles (Wards).....	155	155	157	158	148	205
Petroleum (daily avg.).....	7,163	7,153	7,162	7,156	7,184	6,863
Steel.....	142	144	143	143	141	131
Freight carloadings.....	697	686	698	711	687	639
Department store sales.....	112	105	109	104	97	103
Commodity prices, wholesale:						
All commodities.....	112.8	112.5	112.4	112.1	112.0	110.0 <sup>a</sup>
Other than farm products and foods.....	120.7	120.6	120.7	120.4	120.2	115.6 <sup>a</sup>
22 commodities.....	90.1	89.4	89.3	89.0	88.5	89.0
Finance:						
Business loans.....	27,711	27,047	26,454	26,316	26,241	22,637
Failures, industrial and commercial.....	208	300	268	293	230	232

Source: Survey of Current Business, Weekly Supplements.

<sup>a</sup> Monthly index for March, 1955.



# RECENT ECONOMIC CHANGES

## Fewer, Larger Farms

The trend toward fewer and larger farms has continued, according to the *1954 Census of Agriculture*. In 1954 there were 4.8 million farms in the United States, compared with 5.4 million in 1950. All states but Florida had fewer farms in 1954 than in 1950.

Commercial farms accounted for almost 70 percent of the total number of farms in existence. The remainder included farms operated on a part-time basis or used primarily as residences by their owners.

There were 400,000 fewer commercial farms in 1950 than in 1954. Most of the decline centered in the smaller size-groups — farms with annual sales under \$2,500. Only farms with sales in excess of \$10,000 per year increased in number. These farms are characterized by large investments in land, building, and machinery, and by a high degree of specialization. The largest farms, with annual sales over \$25,000, made up only about 4 percent of the total number of commercial farms, but accounted for over a fourth of total sales.

## Stock-Bond Yields Margin Narrows

The margin between stock and bond yields narrowed during 1955 as stock prices rose substantially faster than dividend disbursements and bond prices drifted downward (see chart). With the market averages for stocks down in January and February and dividends higher, yields improved, but in March a renewed burst of bullish energy pushed prices up and yields declined to about 3.8 percent (Standard and Poor's industrials). This level was comparable with the lows of 1929, 1934, 1939, and 1946.

High-grade corporate bond yields are currently close to their post-Depression high, still well below 1929. In January and February, bond yields declined moderately

from the 1955 peak reached in December, but in March, with heavy demands on the money markets for borrowed funds, reflecting in part the approaching income tax payment deadline, interest rates rose again.

## Housing Starts Level

Housing starts increased slightly in February to 78,000 new units, an increase about in line with the usual change from January to February. At a seasonally adjusted annual rate, this was equivalent to 1.2 million homes, approximately the same as in the previous three months. The November-February rates marked a halt in the fairly persistent downtrend that characterized 1955, when starts fell almost a fifth from the annual rate prevailing at the end of 1954. The recent level represents the lowest volume of starts in 18 months.

Applications for FHA commitments and requests for VA appraisals rose in January and February in accordance with the usual first quarter pattern, but both were over a third below the corresponding 1955 period.

The reduced volume of starts in part reflects the increased number of vacancies throughout the country. Higher vacancy rates reported for the fourth quarter of last year were confined to rental units. Of all units available for rent, 2.2 percent were vacant in the fourth quarter compared with 1.8 percent in the third quarter and only 1.1 percent in April of 1950. According to the Census Bureau's survey, vacancy rates for houses for sale are still only at one-half of 1 percent of available units, the same as in 1950. Geographically, vacancy rates were highest in the West at 4.1 percent and lowest in the Northeast at 1.6 percent.

## Business Failures High

Business failures mounted in the early part of 1956. In February total failures amounted to 1,024 firms, the highest for the month since February of 1941. However, in 1941 there were about a million fewer businesses in operation than currently.

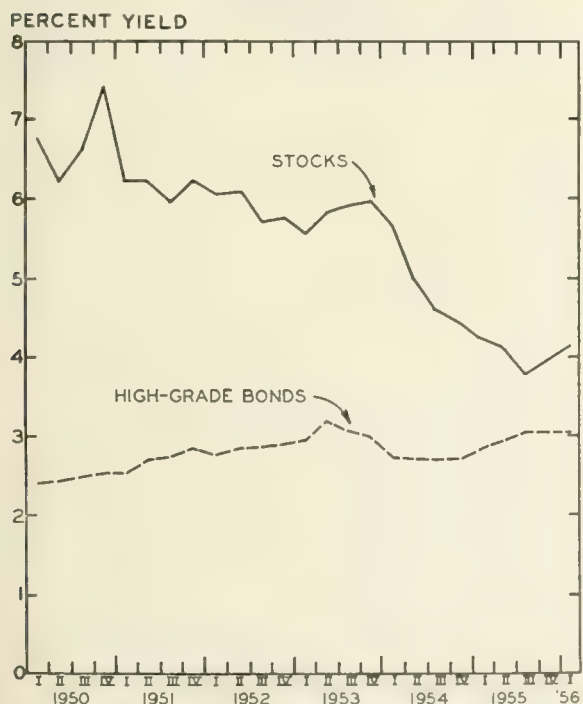
Failures in the first two months of 1956 exceeded the same 1955 period by 14 percent. Among construction firms, failures were up a third from early 1955, failures among retailers rose by a fifth, and industrial failures were 7 percent higher. Fewer commercial service and wholesale concerns went out of business in the first two months of this year than last.

In 1955 about 11,000 firms went into bankruptcy. This was slightly less than in 1954. There were fewer or about the same number of failures in all major industrial groups except construction, where failures increased 7 percent. Business failures numbered substantially higher in both 1954 and 1955 than in other postwar years.

## Balance of Payments, 1955

Boom-level business activity in this country and abroad pushed United States exports and imports to near-record levels in 1955. Imports of goods and services, which had declined somewhat in 1954, increased 11 percent in 1955 to \$17.7 billion. Exports, which rose in 1954 despite the recession here, continued upward last year, rising by about 5 percent to \$21.8 billion. The greater increase in imports reduced our export balance from \$5.0 billion in 1954 to \$4.2 billion last year.

YIELDS ON INDUSTRIAL STOCKS  
AND BONDS



Source: Standard and Poor's Corporation

Government unilateral transfers and private investment declined between 1954 and 1955, so that although foreign nations as a group continued to add to their gold and dollar reserves, the rate of increase slowed. Accumulation of these reserves amounted to \$1.5 billion last year, \$250 million less than in 1954. Government unilateral transfers on the military account were down almost a billion dollars to \$2.1 billion in 1955, but economic aid and other one-way payments by our government increased by \$260 million to about \$1.0 billion, and government loans increased to about \$300 million from a small net inflow of funds in 1954.

The volume of additional net private investments in foreign enterprises and securities declined from \$1.6 billion in 1954 to \$950 million in 1955. The decline was about equally split between reduced short-term loans, direct investments, and purchases of new issues. Private remittances were little changed at \$463 million in 1955.

### Manufacturers' Order Backlogs Up

Manufacturers' sales totaled \$27.2 billion in February, up \$200 million from January after seasonal adjustment, and still close to the level that has prevailed since the middle of 1955. The February advance occurred in non-durable goods industries, as shipments of durable goods were unchanged from December at about \$13.4 billion.

New orders declined slightly in February and were down more than a billion dollars from the exceptionally high December rate. Despite the decline, new business booked continued above current sales, and manufacturers' backlogs of unfilled orders increased an additional billion dollars to \$57.3 billion. This was almost \$10 billion above the level of backlogs a year earlier. Most of the increase in unfilled orders has taken place since June of 1955. As shown by the chart, new orders fell substantially below sales during the 1953-54 recession; during that time backlogs dropped from \$77 billion at the beginning of 1953 to \$46.5 billion at the end of 1954. During the first half of last year order backlogs rose only moderately as new orders and sales advanced together. But new orders con-

tinued to rise irregularly in the second half of 1955 when sales leveled off.

### Employment Rises Seasonally

Employment rose seasonally in March by half a million workers to 63.1 million. Increased hirings mainly in agriculture and construction more than offset lower employment in the auto and some soft goods industries. Unemployment increased slightly as the advance in employment resulted mainly from an influx of additional workers into the labor force. Census data in thousands of workers are as follows:

	Mar. 1956	Feb. 1956	Mar. 1955
Civilian labor force.....	65,912	65,491	63,653
Employment.....	63,078	62,577	60,477
Agricultural.....	5,678	5,470	5,692
Nonagricultural.....	57,400	57,107	54,785
Unemployment.....	2,834	2,914	3,176

### Revamping Foreign Aid

(Continued from page 2)

that are in effect payments for cooperation in furthering our objectives rather than theirs.

Most countries want neither charity nor other assistance that involves them in potentially costly or risky commitments. Temporary hand-outs that do not increase capacity for improved living standards in the future may be gratefully received in an emergency, but can hardly bring about a permanent realignment of policy. Similarly, where we are buying natural resources or strategic advantages, there will be a continuing need to pay for values received. People who do not want to be exploited, either for profit or for war, will not feel bound beyond the terms of commitments immediately exacted. Their interest in temporary assistance can hardly be more than equally temporary.

The case of food illustrates the problem. No one wants to be kept alive today merely to starve tomorrow. Commitments for gifts of food that do not provide permanent access to future supplies are unacceptable to them, just as development of resources abroad without assurance of continuing returns is unacceptable to us. It would be to their greater advantage if we permitted maximum food production in this country and let prices fall to the level of world markets. Then, lower priced food could make a more effective contribution to their economic progress, and expanding incomes abroad could ultimately provide the best means of dealing with our surpluses.

Other forms of assistance also require a higher degree of permanence for a sound program. Technical assistance should be oriented to the needs of long-term development programs. Capital will be required to build and equip a whole series of projects, not just those agreed upon in any one year. Unless both sides are working toward conditions where our capital can continue to flow abroad to mutual advantage, there can be no permanent solution.

This poses the dilemma: If our program needs the support of immediate advantage to gain approval, it cannot serve the needs of other nations, since their needs are basically long range in character. Almost everyone who has seriously studied the problem has reached the conclusion that our foreign aid should be reoriented in this direction. The difficulty will become more acute if trade relations worsen. President Eisenhower's request to authorize the program on a long-range basis is a timely step in the right direction.

VLB

### MANUFACTURERS' SALES AND NEW ORDERS



Source: U. S. Department of Commerce.



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Behind the Employment Averages

Although civilian employment averaged 63 million during the past year, more than 75 million different persons held jobs in the United States during all or part of 1955, according to Census data. This was an increase of 3.5 million workers over the preceding year. Women comprised only about one-third of the total employed, but they accounted for two-thirds of the annual increase.

In addition to the increase in number of workers, employment experience was more regular than in 1954, with 63 percent working a full year. In large measure the increase resulted from the general decline in unemployment and layoffs—the major cause of part-year employment among men. More women than men worked only part of the year, with household and family cares being the main restraints.

Almost 17 percent of the workers held part-time rather than full-time jobs, the majority of these also being women. About one-fourth of the 10 million persons who had more than one job during the year had two at the same time.

Temporary unemployment also claimed a great many more persons than the averages show. At least 11 million people were unemployed at one time or another during 1955, although rapid turnover restricted the average number of job-seekers for any one period to less than 3 million.

### It's Picnic Time

Right in season is the announcement of a new picnic thermos with a bulb pump which forces the liquid through a spigot in the top. This has two advantages—it prevents any dripping from the spout, and it eliminates the need of tipping the container when pouring. The stopper which fits into the spigot is magnetic, so that it sticks to the surface of the thermos when not in place. The Scotch O'Matic is made in both half-gallon and gallon sizes by the Hamilton Metal Products Company, 855 Avenue of the Americas, New York. Suggested retail prices are \$7.95 and \$8.95 respectively.

A Roti-Matic battery-powered barbeque spit is being marketed by the Party-Q Corporation, 601 West 26th Street, New York. The portable unit will fit any grill or fireplace in the back yard, at the beach, or wherever outdoor cooking is to be done. The spit is powered by two standard flashlight batteries, and it will rotate 15 pounds of meat for 24 hours before using up the batteries. The unit retails for \$10.95.

### Small Business Publications

In addition to the financial and advisory help given businessmen throughout the nation, the Small Business Administration offers publications on a wide variety of topics. Among these are 72 management aids, 41 technical aids, and 6 retailing aids, free on request from a branch office or the central Administration office, Washington 25, D. C. Available at small charge from the Department of Commerce field offices or from the Superintendent of Documents is the Small Business Management Series—booklets on employment, materials, accounting, organization, sales, and other business topics.

More detailed listings and prices are available from the Small Business Administration, Washington 25, D. C.

Businessmen interested in new products may care to look at the patent abstracts contained in the series on *Government-Owned Inventions Available for License*. These publications are on sale by the Office of Technical Services, United States Department of Commerce, Washington 25, D. C., at prices ranging from \$1 to \$4 per copy.

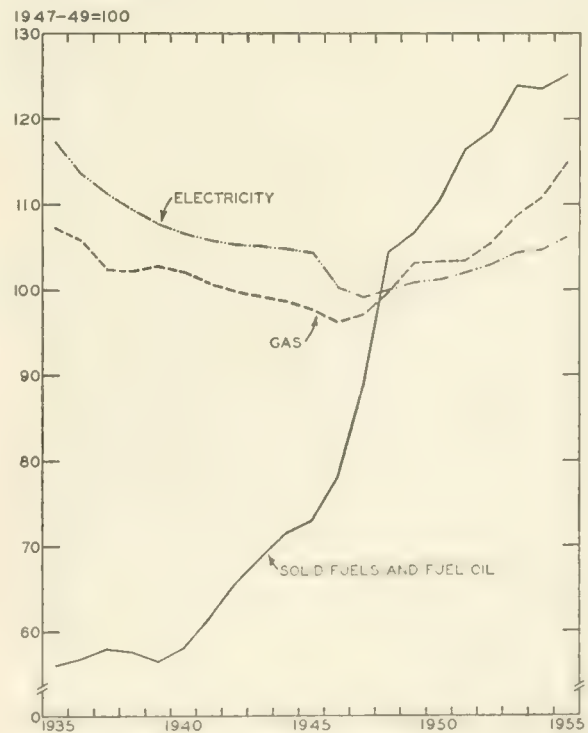
### Fuel and Electricity Prices

Along with other consumer prices, retail costs of most sources of heat and power have continued to inch upward. As may be seen in the accompanying chart, prices of gas, electricity, and solid fuels and fuel oil have all risen during most of the last decade.

The prices of coal and oil have followed closely the movements in consumer prices as a whole, although in 1935 they averaged slightly lower than the over-all index and currently they have risen to slightly more. The chief difference is that fuel prices have continued to rise in the past few years whereas the over-all price index has been kept relatively stable by declining food prices.

Gas and electricity, however, do not exhibit the same trend as the general price level. From 1935 to 1947, prices of electricity declined steadily. Although there has been a consistent rise since that time, the index remains about 10 percent below its 1935 level. Gas prices moved in the same general direction as electric prices, but they declined less in the earlier years and rose more sharply since the war. As a result they were about 7 percent higher in 1955 than they were twenty years earlier.

### PRICE INDEXES OF FUELS AND ELECTRICITY



Source: Bureau of Labor Statistics.

# THE SUPPLEMENTAL UNEMPLOYMENT BENEFIT PICTURE

R. W. FLEMING, Director  
Institute of Labor and Industrial Relations

In 1955 the key question for debate among industrial relations experts was the probable outcome of the so-called guaranteed annual wage negotiations. By 1956 the question is no longer whether such plans will be negotiated, but only how far and in what form they will spread.

Though variations can be found here and there, for all practical purposes the 1955 negotiations brought forth three varieties of "guaranteed annual wages" under the new, and generally more accurate, name of supplementary unemployment benefits. These were: (1) the auto plan, (2) the can plan, and (3) the glass plan. The fact that they vary in important respects makes necessary a brief review of each.

## Variety of Plans Accepted

Under the auto plan the companies contribute five cents per hour into a trust fund which accumulates for one year before any payments are made from it. Eligibility for supplementary benefits is contingent upon qualifying for state unemployment compensation benefits. Coverage is accorded all those with more than one year's seniority. No benefits are paid during the first week of idleness, but for the next four weeks the employee is reimbursed from the combined UC and SUB sources up to 65 percent of his normal take-home pay. After the fourth week, and for the remainder of the 26-week total, the payments drop to 60 percent of take-home pay. Satisfactory resolution of certain legal problems is required before the plans go into effect.

Basic steel contracts were not open in 1955, but the Steelworkers' union unveiled its version of the supplementary unemployment benefit plan through agreements negotiated with the major can companies. Though financed by a contribution similar to that in the auto plan, the can contracts are quite different. Coverage is limited to those having three years' seniority, but on the other hand, benefits continue for a full year rather than for 26 weeks. In addition the employee receives \$2 extra per week for each dependent up to four, and payments are not made contingent upon eligibility for unemployment compensation benefits though the employee may combine the two.

The third major plan, negotiated in the glass industry, is almost totally different in design though tailored to meet some of the same ends. Abandoning the insurance principle, the parties simply agreed upon a five-cent-per-hour contribution into individual trust accounts. A maximum of \$600 can accumulate in each account with the balance thereafter being added to the individual's vacation pay. There is no tie-in with state unemployment compensation systems though the employee may draw both types of benefits at the same time. Employees can also draw on their accounts for additional vacation money or during a period of disability. Finally, the parties agreed that as of September, 1956, the employees could decide whether an additional five cents per hour already agreed upon should go into the individual trust accounts or be added to wages.

One notable fact which emerged from the 1955 bargaining was that despite the emphasis on supplementary unemployment benefit funds, not all key bargains were including such plans. The electrical industry, with General Electric leading the way, did not even seriously con-

sider SUB in its negotiations, and the record Westinghouse strike recently ended was in no way related to supplementary unemployment benefits.

Industry reaction to the supplementary unemployment benefit plans was quick in coming and hostile in tone—despite the fact that the essential elements in all of the plans were of company origin, and that such bugaboos as joint administration, unlimited liability, coverage for all employees, and a level of benefits equal to that obtained while working had been avoided. Gradually, however, the National Association of Manufacturers came around to accepting the glass plan as a constructive solution. Organized industry opposition in other key states like Michigan also deteriorated, though not, apparently, without some acrimonious debate within the industry family.

## Legal Obstacles Overcome

There were at the outset certain legal hurdles for all of the plans, particularly for those of the auto companies, and it was provided that unless these obstacles could be cleared the plans could not go into effect. This required a ruling from the United States Department of Labor that no part of the fund contribution would be included in the regular rate of pay of an employee; a ruling from the Internal Revenue authorities that contributions were deductible for tax purposes; and rulings from the several state unemployment compensation agencies that payment of UC benefits would be legal if made at the same time that the idle employee was drawing benefits from the company trust fund. The first two rulings were not difficult to obtain and came within a short period after the agreements were announced. Rulings from state unemployment compensation divisions have been more complicated. Either through opinions of attorneys general or through new legislation, enough states have made it permissible to collect simultaneous benefits so that the plans are now effective (though not operational since the year during which the trust funds are to build up has not yet elapsed). However, important industrial states like Illinois have yet to take any action.

Uneasiness on the part of state unemployment compensation administrators, and some other observers, over needless duplication of administrative facilities showed up early. The Director of the Wisconsin Unemployment Compensation Department suggested in a speech before the Interstate Conference of Employment Security Agencies that there was no reason why "qualified" employers should not utilize the state machinery to supplement regular UC benefits by making higher contributions into the regular state fund for such purpose. By "qualified" employers he meant those whose past experience indicated that they could finance such payments without imposing on funds contributed by others.

Republican legislators in Rhode Island introduced a similar scheme in that state. The Rhode Island bill would set up a guaranteed annual wage fund in the Department of Employment Security which administers state unemployment compensation. The fund would be financed by joint employer and employee contributions of 1 percent of that part of the employee's pay up to \$3,600 per year. Regular unemployment compensation taxes of 2.7 percent would be continued on employers as would a present 1 percent levy on the employee's pay for sickness benefits.



Beginning in 1960 qualified workers would get regular UC benefits now being paid at the rate of \$30 per week for 26 weeks, plus \$30 per week from the separate fund for the same period. The total of \$60 would, according to the sponsors of the bill, just about equal current average weekly earnings in the state.

## Some Indications of Discontent

Since none of the plans are yet operational because of the year required to build the trust funds, there has been little or no experience against which to judge them. There are, however, certain straws in the wind which may be of significance. The Director of Industrial Relations for the Continental Can Company, which has the can plan, has observed that the agreements could, in fact, militate against the very stabilization of employment which was thought to be their primary aim. Pointing out that the can companies had long attempted to stabilize employment by producing for inventory part of the year, he noted that it might now be cheaper and less risky to permit wider fluctuations in employment, thus utilizing an otherwise sterile unemployment benefit fund. Recent unemployment in Detroit likewise suggests that the Chrysler Corporation may find it wiser to follow the Ford and General Motors practice of working overtime rather than adding employees lest too many of them acquire more than one year's seniority.

Skilled members of the auto union, unhappy with past settlements including supplementary benefits which they regard as of no great value to them, are promoting a new independent union which is giving some concern to their former colleagues in the auto union.

Unemployment in Detroit in the first quarter of 1956, resulting from reduced automobile production, gave some basis for auto workers to consider their prospects once the plan became operational, and what they found may not have been altogether to their liking. Layoffs came, as one would expect, in the low seniority group with the result that many of the unemployed would not have been eligible for benefits even had the plans been effective.

## The Future of SUB

Against all of this known background it is possible to make certain predictions about the future.

(1) Except for basic steel, 1956 is not likely to witness major extensions in the supplemental unemployment benefit pattern. In part this is simply because many of the key bargains were struck in 1955 and will continue for at least three years. Nevertheless, SUB does not seem to be spreading into industries like aircraft, chemicals, and oil. The fact that aircraft agreements are being made without including SUB plans is especially important because one of the major unions entered negotiations with such a demand. In the basic steel contracts, which will be negotiated in 1956, it is reasonable to suppose that there will be some kind of SUB agreement. The union has already announced that it will seek such a settlement, the industry is in a good profit position, there is ground for believing that if the can pattern of covering only those with three years' seniority is followed the cost is not too great, and the steel industry is not in a good strategic position to resist in the light of the settlements which have already been made. If the union attempts to extend coverage below the three-year level, serious resistance might develop. Otherwise it is hard to avoid a conclusion that something like the can pattern will be followed in steel without a strike.

(2) Now that enough states have legalized simultaneous unemployment compensation and supplementary unemployment benefit payments to make the auto plans effective, the heat is off, and one may anticipate that other states will fall in line. This will be done primarily through rulings of attorneys general, but may in some states take the form of legislation. Illinois is likely to join the ranks of states where a favorable ruling of the attorney general turns the tide in favor of simultaneous payments.

(3) Despite the generally dim view which organized labor is taking of proposals which tie supplementary payments into state unemployment compensation plans along the lines suggested in Rhode Island, the picture may change. American Motors and the UAW have already announced that they are hoping to get state UC agencies and the Bureau of Employment Security in Washington to approve a "one-step" procedure under which an employee reports for supplemental unemployment benefits at the same time and place he reports for UC. The plan would make it unnecessary for an employee to make an additional report at a company location, thus saving him time and saving the company the expense of staff, space, and procedural facilities to duplicate the UC interview. If state agencies agree, they will obtain and forward necessary information to the company, which will then process the worker's claim for SUB. Granted that this is a far cry from the Rhode Island plan, there is great administrative good sense in a closer integration of the two systems.

(4) Unemployment experience during the next three years, while present supplemental benefit plans are in effect, is likely to exert an important influence on the direction of future plans. Light unemployment would seem to encourage the growth of glass-type plans since individuals would then benefit from their individual accounts in such uses as higher vacation pay or disability benefits. Senior and skilled employees are already somewhat dubious about the insured-type agreements because they see little in such plans for them. Their interest in individual trust accounts of the glass type could be encouraged if there is little unemployment. On the other hand, heavy unemployment could have exactly the opposite effect with more emphasis on the insured-type plans.

(5) There will be inevitable pressure on state legislatures for higher unemployment compensation benefits. Supplemental unemployment plans seem unlikely to spread over more than a quarter of the organized sector of the economy, let alone the unorganized part. This means that the bulk of industrial workers will be covered only by state systems. Supplemental benefit plans constitute some recognition of the need for a higher and more adequate level of unemployment benefits and as such will lend steam to labor's perennial campaign for higher UC benefits. Moreover, employer opposition is likely to be less determined if hiking state benefits will slow down the demand for privately bargained plans.

(6) There is reason to believe that the industry line on further concessions in the direction of joint administration of SUB plans, higher benefits under such plans, and greater coverage will stiffen rather than soften. In part this may be a psychological reaction to the criticism of industry brethren on the part of those companies which have agreed to such plans. But in larger measure it will reflect a genuine industry concern that SUB plans are feasible only if kept within reasonable limits — which tends, in their judgment, to mean within the present framework.

# LOCAL ILLINOIS DEVELOPMENTS

The shorter month of February showed declines in business activity throughout the State. Most major indexes were lower, some by substantial amounts. Construction contract awards were down by 28 percent, and bank debits were off 17 percent from their January total.

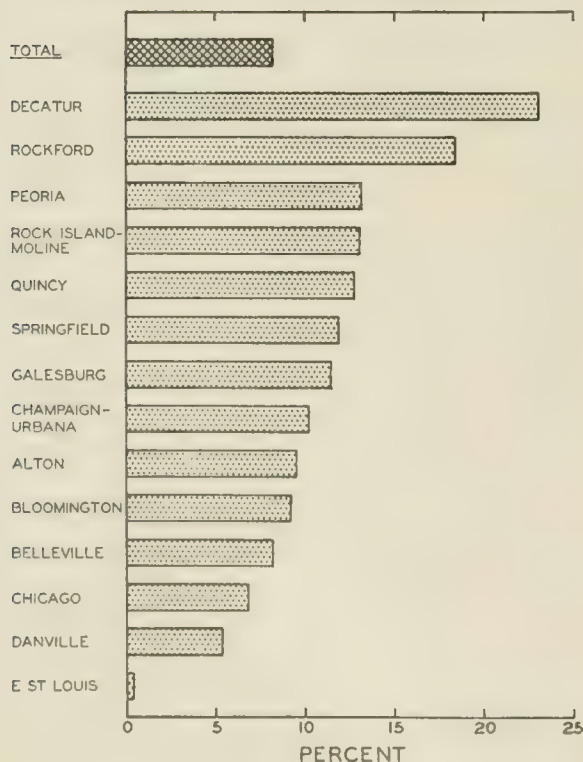
Comparisons with a year ago are more favorable, reflecting the continued high level of the economy. Construction showed an increase of 45 percent over February, 1955, and bank debits rose 11 percent. Business loans rose 19 percent, as some of the seasonal borrowers paid their fall loans back more slowly than usual and as industrial borrowing rose. Continued expansion in industrial activity maintained electric power consumption about 13 percent over a year ago, and all other indicators except farm prices were up.

## Electric Power Expands

A sharp upturn in business activity resulted in a gain of 8 percent in the power used by major Illinois cities during 1955. The industrial centers showed the sharpest rise, as may be seen in the accompanying chart, with Decatur leading the way. Peoria and Rockford bounced back from their year-earlier losses, increasing at a substantially higher rate than the State as a whole. Only East St. Louis lagged far behind, lacking the industrial expansion which occurred throughout most of the State.

Sales to industrial customers advanced the most during 1955, rising almost 17 percent to 11.4 billion kilowatt-hours. Sales to governmental units increased almost as much as industrial sales, almost entirely because of the expanding activity of the Federal atomic energy plant in southern Illinois. Residential sales grew by 10 percent during the year, whereas commercial and rural sales gained only 6 percent.

GROWTH IN ELECTRIC POWER, 1954-55



Sources: Local power companies.

## Spring Planting

Prospective plantings for Illinois are down slightly from the 1955 record high as farmers plan a 5 percent cutback in the acreage of corn, the major State crop. The total expected acreage for the seven major crops is 21.3 million, compared with 21.9 million a year ago. In addition to the cut in corn plantings, which accounts for about 80 percent of the drop, there is a small decline in estimated oat acreage and sharp declines in barley and rye plantings. The latter two, because of their smaller importance in the State, do not affect the total appreciably, however.

Partly offsetting these cutbacks are switches into other crops. Soybeans will be planted on a new record of 4.7 million acres, 6 percent more than last year. Wheat and hay plantings are also being expanded.

## Construction Ahead

State architects estimate State building needs over the next decade at \$250 million, including about \$100 million for welfare institutions. These estimates are based on costs of improvements suggested by the many departments. If all the current plans were to be carried out, construction might require as long as twenty years.

Among the many welfare institutions for which plans run to more than five million dollars are the State Hospitals in Alton, Anna, Elgin, Jacksonville, Manteno, Tinely Park, and Menard. Institutions with plans costing between one and five million dollars include the State Hospitals in Chicago, Dixon, East Moline, Kankakee, Peoria, the Illinois Eye and Ear Infirmary in Chicago, the Illinois School for the Blind in Jacksonville, the Lincoln State School, the Illinois Soldiers' and Sailors' Children's School in Normal, and the Illinois Soldiers' and Sailors' Home in Quincy.

In addition to the welfare construction there are plans for educational and correctional institutions and for office buildings.

## Illinois Autos

State revenue from auto registration is likely to attain a new high this year as both the number of cars registered and the average horsepower are rising. The only horsepower class to show a decline in recent years is the lowest, with the highest classes more than making up the difference.

The record-breaking registration is having other effects besides increasing revenue. Parking is becoming more and more of a problem all over the State, with cities taking a variety of steps to combat the difficulties. Peoria merchants thought up a "parking stamp" plan, whereby shoppers in participating stores would be issued stamps to help pay fees in private parking lots; the objective is to stimulate downtown shopping by easing the pressure on curb parking. New city lots have been added in Champaign, Rockford, and Urbana, and long-standing zoning laws are being invoked to force residents to find off-street parking.

Springfield has tried to ease its problem by stricter enforcement of parking laws and by use of one-way streets, but in some ways its problem has only been complicated. As policemen were taken off the night force to help with daytime traffic problems and meter collections, thefts of autos and accessories and auto accidents soared.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

February, 1956

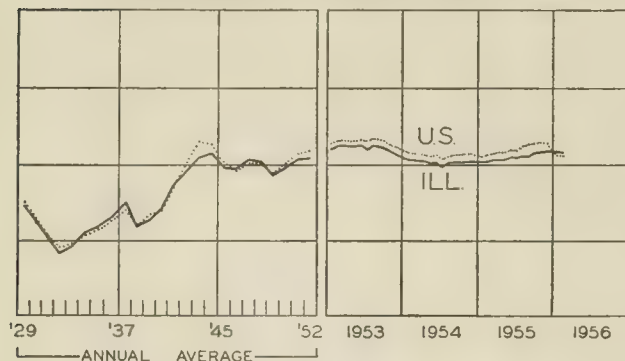
		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS.....</b>		<b>\$28,784<sup>a</sup></b>	<b>1,111,792<sup>a</sup></b>			<b>\$13,586<sup>a</sup></b>	<b>\$14,062<sup>a</sup></b>
Percentage change from.....	{ Jan., 1956 Feb., 1955	- 0.4 +29.3	+0.2 +8.8		-8 +7	-17.3 +10.9	+3.0 +5.7
<b>NORTHERN ILLINOIS</b>							
<b>Chicago.....</b>		<b>\$19,563</b>	<b>847,210</b>			<b>\$12,437</b>	<b>\$12,213</b>
Percentage change from.....	{ Jan., 1956 Feb., 1955	-9.5 +26.1	+0.9 +8.5		-8 +7	-18.0 +10.7	+3.7 +5.5
<b>Aurora.....</b>		<b>\$ 191</b>	n.a.			<b>\$ 53</b>	<b>\$ 129</b>
Percentage change from.....	{ Jan., 1956 Feb., 1955	+39.4 -34.1			-7 +16	-10.7 +18.1	-1.1 +4.2
<b>Elgin.....</b>		<b>\$ 56</b>	n.a.			<b>\$ 34</b>	<b>\$ 112</b>
Percentage change from.....	{ Jan., 1956 Feb., 1955	-77.8 -70.8			-2 +7	-6.1 +12.8	+17.8 +17.6
<b>Joliet.....</b>		<b>\$ 332</b>	n.a.			<b>\$ 68</b>	<b>\$ 91</b>
Percentage change from.....	{ Jan., 1956 Feb., 1955	-64.5 +29.7			+1 +3	-5.8 +16.2	-2.6 +4.1
<b>Kankakee.....</b>		<b>\$ 292</b>	n.a.			n.a.	<b>\$ 44</b>
Percentage change from.....	{ Jan., 1956 Feb., 1955	+484.0 +107.1			n.a.		+4.2 +17.5
<b>Rock Island-Moline.....</b>		<b>\$ 873</b>	<b>25,475</b>			<b>\$ 82<sup>b</sup></b>	<b>\$ 150</b>
Percentage change from.....	{ Jan., 1956 Feb., 1955	+31.7 +63.5	+2.6 +13.2		n.a.	-5.0 +12.6	-1.6 +3.0
<b>Rockford.....</b>		<b>\$ 731</b>	<b>39,728</b>			<b>\$ 160</b>	<b>\$ 218</b>
Percentage change from.....	{ Jan., 1956 Feb., 1955	-42.7 -20.4	-3.2 +4.3		+1 <sup>c</sup> +10 <sup>c</sup>	-4.1 +20.8	-4.6 +8.8
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington.....</b>		<b>\$ 145</b>	<b>8,328</b>			<b>\$ 52</b>	<b>\$ 97</b>
Percentage change from.....	{ Jan., 1956 Feb., 1955	+88.3 -44.7	-0.3 +10.1		n.a.	-17.3 +4.9	+7.1 +14.6
<b>Champaign-Urbana.....</b>		<b>\$ 269</b>	<b>10,875</b>			<b>\$ 58</b>	<b>\$ 90</b>
Percentage change from.....	{ Jan., 1956 Feb., 1955	-45.1 +15.5	+0.9 +9.0		n.a.	-10.4 +17.6	+7.7 +14.9
<b>Danville.....</b>		<b>\$ 65</b>	<b>10,801</b>			<b>\$ 46</b>	<b>\$ 56</b>
Percentage change from.....	{ Jan., 1956 Feb., 1955	-59.6 +22.6	-1.7 +7.4		+8 +15	-7.5 +15.0	-14.3 +8.8
<b>Decatur.....</b>		<b>\$ 465</b>	<b>32,911</b>			<b>\$ 107</b>	<b>\$ 111</b>
Percentage change from.....	{ Jan., 1956 Feb., 1955	+10.5 -23.8	+4.8 +17.5		-3 <sup>c</sup> +10 <sup>a</sup>	-3.7 +26.9	-5.6 +4.4
<b>Galesburg.....</b>		<b>\$ 164</b>	<b>8,794</b>			n.a.	<b>\$ 32</b>
Percentage change from.....	{ Jan., 1956 Feb., 1955	+78.3 +37.8	+5.9 +15.9		n.a.		-15.5 -4.1
<b>Peoria.....</b>		<b>\$1,440</b>	<b>52,083<sup>c</sup></b>			<b>\$ 197</b>	<b>\$ 274</b>
Percentage change from.....	{ Jan., 1956 Feb., 1955	+123.1 -26.2	+4.8 +4.9		-3 <sup>c</sup> +2 <sup>c</sup>	-8.8 +13.0	+20.4 +27.1
<b>Quincy.....</b>		<b>\$ 163</b>	<b>9,582</b>			<b>\$ 34</b>	<b>\$ 66</b>
Percentage change from.....	{ Jan., 1956 Feb., 1955	+30.4 -40.5	+4.3 +8.3		+4 -1	-16.7 +1.9	-13.7 +3.1
<b>Springfield.....</b>		<b>\$2,627</b>	<b>32,120<sup>c</sup></b>			<b>\$ 102</b>	<b>\$ 239</b>
Percentage change from.....	{ Jan., 1956 Feb., 1955	+1,552.2 +1,133.3	-6.6 +11.2		n.a.	-15.4 +13.0	-10.5 -9.5
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis.....</b>		<b>\$ 653</b>	<b>13,579</b>			<b>\$ 119</b>	<b>\$ 57</b>
Percentage change from.....	{ Jan., 1956 Feb., 1955	+126.0 +105.3	-3.1 +16.4		n.a.	-9.2 +2.2	-22.0 -0.3
<b>Alton.....</b>		<b>\$ 201</b>	<b>13,190</b>			<b>\$ 36</b>	<b>\$ 29</b>
Percentage change from.....	{ Jan., 1956 Feb., 1955	-64.6 -41.4	-3.6 +13.0		n.a.	-8.8 +6.5	-12.8 +1.6
<b>Belleville.....</b>		<b>\$ 545</b>	<b>7,117</b>			n.a.	<b>\$ 44</b>
Percentage change from.....	{ Jan., 1956 Feb., 1955	-58.3 +2,269.6	-8.8 +14.1		n.a.		-2.3 +7.9

<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Data for October are not available. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

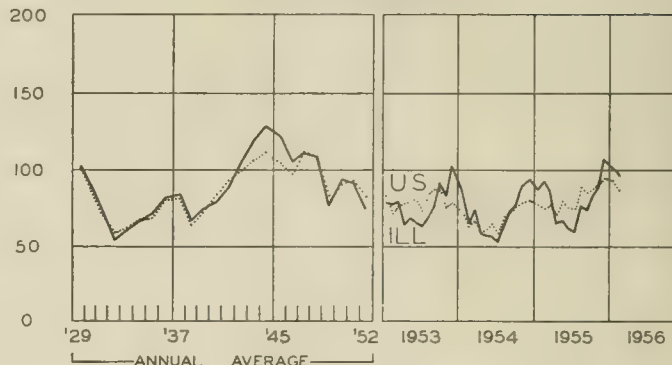
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

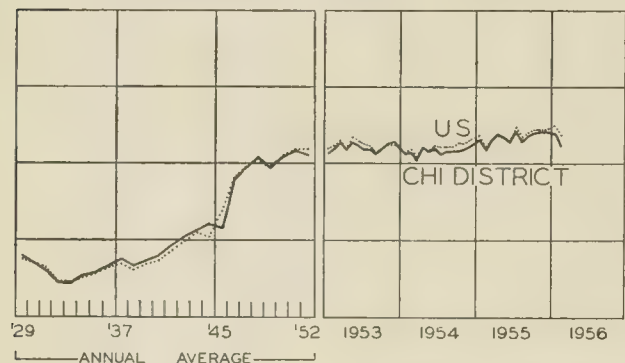
EMPLOYMENT-MANUFACTURING



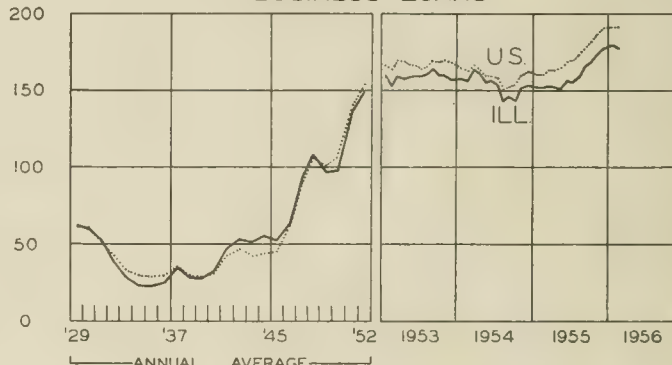
COAL PRODUCTION



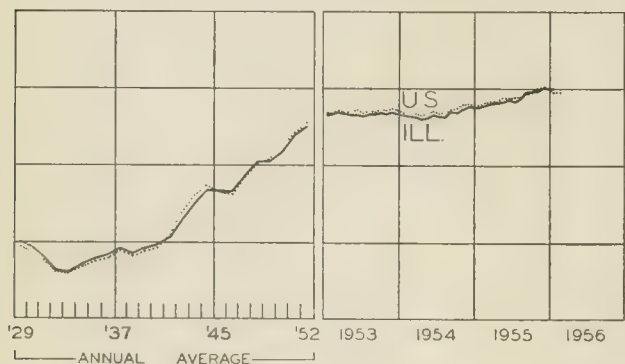
DEPARTMENT STORE SALES



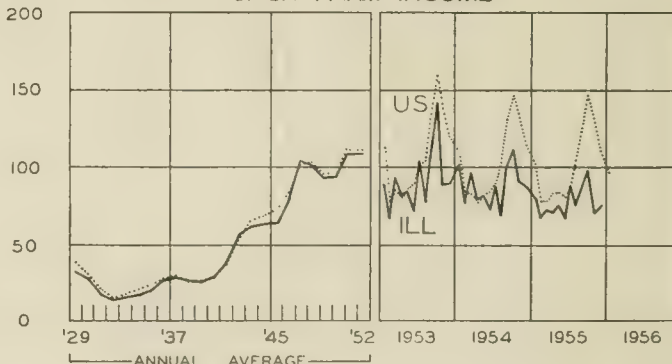
BUSINESS LOANS



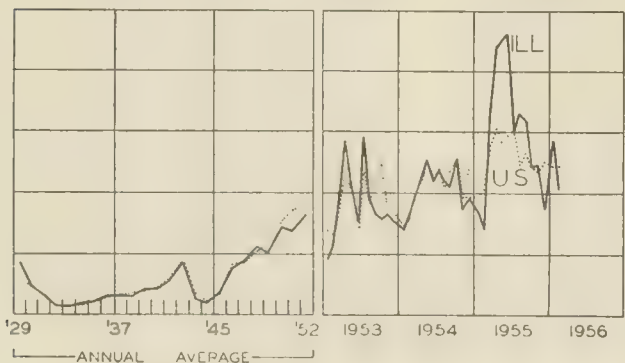
AVG. WKLY. EARNINGS — MANUFACTURING



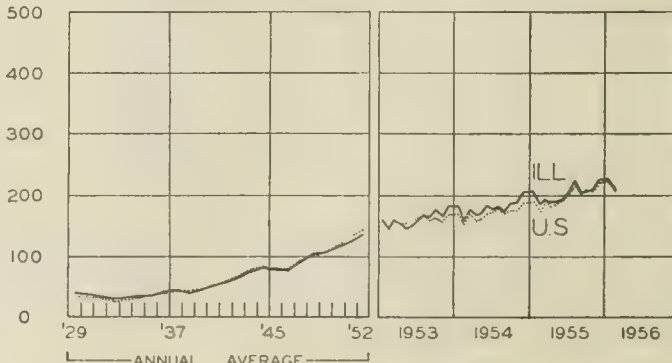
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .  
BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

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MAY, 1956

NUMBER 5

## HIGHLIGHTS OF BUSINESS IN APRIL

Business activity appears to have been fairly steady in April, although weaknesses were apparent in some sectors. Despite cuts in production schedules, sales did not exceed automobile output in April to any noticeable extent, with the result that further layoffs were planned by the industry in May. Textiles continued to be plagued by surplus production, with price cuts only leading many buyers to withhold orders in the expectation of still lower prices.

On the other side of the picture, demand for primary metals was maintained at capacity levels. Steel mills operated near 100 percent of capacity throughout the month, as other buyers stepped in to absorb tonnage reductions by automobile manufacturers, partly perhaps in anticipation of a steel strike. (See "Inventories Mount" below.) Department stores also continued to do very well, their sales in the month exceeding both the March and preceding April levels after adjustment for seasonal variation.

### Corporate Sales and Earnings

Both sales and earnings of United States manufacturing corporations reached new peaks in 1955. Sales rose by 12 percent to \$278 billion. Profits after taxes moved up even more, by 35 percent to \$15.1 billion, or about a 5.4 percent return on sales. Contrary to the trend in past years, the biggest gain in net profits was reported by small companies, firms with assets of less than \$1 million, whose net increased 40 percent.

The biggest relative advances in net profits in 1955 were reported by the textile industry, with a rise of 204 percent over 1954, by lumber and wood products manufacturers, up 79 percent, and by iron and steel, also up 79 percent. No major industry group experienced a decline in net profits and only one group, small instrument producers, reported no gain.

### Employment Gains

A seasonal pickup in farm and other outdoor activities boosted total civilian employment in April by 900,000 to a new high for the month of nearly 64 million. This was 2.3 million higher than the previous peak for the month attained in April of last year.

An increase of 700,000 in farm employment (to 6.4 million) accounted for most of the gain from the preceding month. Employment in construction and some service

industries was also up moderately. Manufacturing employment was fairly steady at 16.7 million with layoffs in textiles and transportation equipment firms offset by hirings in printing, chemicals, paper, and electrical firms, the latter largely due to the end of the Westinghouse strike.

Unemployment declined seasonally in April to 2.6 million. This was about 300,000 below the figures for March and for April, 1955.

### Construction Rises

The value of new construction put in place in April rose seasonally to \$3.3 billion, matching the high for the month reached last April. Seasonal gains in outlays for highway construction and residential building accounted for most of this increase. Expenditures for private industrial building, commercial building, and sewer and water facilities were also up substantially, reaching new highs for the month.

Construction outlays in the first four months of this year amounted to the same total as in the first four months of last year—\$11.8 billion. However, significant shifts in expenditures for particular types of construction are apparent. Among the big gainers were private industrial building, up 22 percent, commercial building, up 25 percent, and public service enterprises, up 115 percent. At the same time, public industrial building was down sharply, by 59 percent, and private homebuilding was 7 percent below last year's level.

### Inventories Mount

Manufacturers' inventories continued to mount in March. The rate of increase after seasonal adjustment was only slightly less than in February, about \$500 million, or a substantial annual rate of \$6.0 billion per year.

As in previous months, the bulk of this increase was in durable goods. Durable goods also accounted for nearly three-fifths of the book value of the \$47.6 billion total of manufacturers' inventories at the beginning of April, as well as for more than 80 percent of the increase in stocks over the past year.

Manufacturers' sales in March aggregated \$28.5 billion, about the same as in previous months after seasonal adjustment. New orders amounted to the same aggregate figure, with the result that the value of unfilled orders in early April remained unchanged at \$57.2 billion. This was \$9 billion higher than a year ago.

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## The "Hard Sell"

There has been a recent accentuation of developments in merchandising that supplant the principles of good business by practices intended wholly or in part to delude the public. Goods are constantly being "given away"; or something is offered at less than its "true worth"; or something else is given with it as an "extra" value; or it comes in a container that "adds" something; or maybe it is merely placed on a new, "special" shelf in the store. These are signs of the "hard sell"—the drive to foist goods on consumers no matter what.

### Something for Nothing

The razzle-dazzle of this selling effort is directed mainly toward the fullest possible exploitation of human weaknesses. Extending the efforts to indoctrinate children through boxtops, it attempts to take adults back to childhood days with coupons and other premiums. It also concentrates on exploiting the gambling instinct. The widely publicized TV programs which pay \$64,000 or \$100,000 for answering a series of questions correctly are only outstanding examples of a flood of contests, in which participants may have to do something or perhaps just enter their names in the "sweepstakes."

In daily advertising, merchandise is constantly being advertised not only with the price it actually carries but with a higher price to indicate that it is worth more, this presumptive price being designated the regular, usual, or former price. The innocents are not supposed to know what the price formerly was, or understand that nobody dares try to sell the product at that price today. "Bait advertising"—where the intention is to sell a product other than that advertised—extends the practice of baiting the bargain hunter beyond the realm of legitimate business.

Phony discounts are commonly offered by auto salesmen. When the car salesman discounts the stated price by \$700, he may actually be discounting the manufacturer's suggested price by something like a third of that amount. The larger part of the "discount" is just fictitious value embodied in what is known as "dealer's pack." By packing the price in advance of stating it to the customer, the dealer makes the final charge look like a good bargain.

All these discounts and giveaways create the impression that the goods are not worth what is asked for them.

Increasingly the public comes to accept the idea that it is never wise to pay the stated price, and this attitude may in the future haunt those who are now cultivating it. If the "hard sell" is so frantic at the peak of prosperity, what will the sellers have to fall back on after conditions worsen?

## The Stamp Craze

Another giveaway that will be hard to eliminate is the practice of issuing trading stamps. Usually one stamp is given with each 10-cent purchase. When accumulated in books of 1,000 or more, the stamps may be exchanged for merchandise worth about 2 percent of the original purchases, or possibly somewhat more if the merchandise is valued at full list price. This plan has spread like fury among certain kinds of outlets, such as food stores and gasoline stations, which face tough competition but are comparatively protected against retaliation from other kinds of business. About half the nation's supermarkets are reported to be issuing the stamps. A & P is currently the most important holdout. This chain continues to stress the comparative advantage of lower prices.

To what extent the stamps are free is a question. The gas station can hardly ever exceed the prevailing price; by issuing the stamps, it in effect becomes another kind of cut-rate station attempting to gain volume at the expense of other stations. In food stores, prices may be adjusted upwards to pay for the stamps. In this event, the stamps may cost the store nothing. It has merely found another way of going into the other fellow's business. It adds the secondary distribution of stamp-purchased merchandise to the direct invasion of other kinds of business already effected by stocking the quick-selling items usually carried in other kinds of stores.

Foremost among the disadvantages of the stamp plan are the inefficiencies it engenders. It sets up a dual currency system, like the ration coupons of wartime. Some merchants take account of the extra labor involved in handling and accounting for the stamps. Nobody bothers to account for the time and effort of the consumer. Many people who could not be paid the same amount to compensate for the nuisance value of handling, accumulating, and cashing in the stamps feel that they will be cheated unless they do so.

The special advantage of the stamp plan is that it is supposed to attach customers to the outlets issuing the stamps. This advantage is offset to the extent that other outlets also adopt the practice. When everybody is doing it, there is advantage for no one. Only the disadvantages remain. It might then be continued anyway, because hardly any store would dare to pull out. But fads and crazes tend to burst like the proverbial bubble.

## Package Maker's Paradise

Closely related to other practices comprising the "hard sell" is the notion that everything has to be dressed up in a fancy package. The designers are engaged in an all-out battle to create an illusion of value where none may exist. This battle exploits new materials—metals, plastics, paper, and glass, alone and in combination.

Excessive packaging is inherently wasteful. The primary justification for it is supposed to lie in the fact that the new packages reduce spoilage or deterioration. No doubt there are some other advantages as well. But against any saving of product that it may achieve must be counted the cost of the materials and the labor of enclos-

(Continued on page 6)



## **CLOTHING THE NATION**

In America, household production of clothing and textiles began almost as soon as the first settlers landed. Ordinary clothing was made from homespun fabric, but finer material was imported from England. Cotton was imported from the West Indies, as that grown domestically was of inferior quality — no one then dreamed that America would become the leading cotton-producing country of the world.

A history of the early clothing and textile industries would be not at all suggestive of the immense development that has taken place in recent years. Together these industries currently manufacture textile products and apparel valued at \$25 billion annually.

### **Early Industrial Development**

The clothing industry had its beginning in the so-called "slop-shops" along the New England coast shortly after the beginning of the nineteenth century. Stocks of poor-quality ready-made garments were produced and sold to sailors who had, perhaps, only a few hours' shore leave and wanted clothing in a hurry. The clothiers cut the cloth and parceled out the garments to seamstresses or tailors to be sewn by hand.

The textile industry became concentrated in the early American centers of trade and industry in Massachusetts and Rhode Island. As a result of the proximity of the textile mills and an abundant labor supply, the early growth of clothing factories was also concentrated in the East, in such centers as Baltimore, Boston, Philadelphia, New York, and Newark. Shortly before the Civil War, a few factories began to appear in Chicago, Cincinnati, and other growing industrial cities west of the Alleghenies.

The apparel manufacturing industry began to expand greatly after the invention of the sewing machine in 1846. Other factors were the rise in domestic wool manufacturing and the introduction of improved cutting equipment. By 1890, ready-made clothing accounted for 50 percent of total production.

During the next 25 years, the use of mechanical power in the manufacture of men's clothing increased sevenfold and output more than doubled. However, all was not well with the industry, and the period from 1910 to 1924 was one of costly labor conflicts. The first organized strike in the history of the clothing industry took place in Chicago in 1910 and resulted in the industry's first minimum wage scale, standard workweek, and payment of time and one-half for overtime. This settlement provided the groundwork for a basic pattern of collective bargaining which gradually spread through American industry.

### **The Industry Today**

In the United States, each item of apparel is made by a manufacturer or jobber who usually specializes, so that each plant makes only one or a few products. In utilizing methods of mass production, simplicity is a major factor, especially when the industry is geared to a low price level.

The principal divisions of apparel include coats and suits, dresses, housedresses, evening wear, underwear, knitted wear, sportswear, children's clothes, juniors' clothes, girls' clothes, wedding gowns, corsets, and millinery. There are also closely related industries which include the production of fabrics, findings, belts, neckwear, uniforms, and similar articles.

In 1955 manufacturers' shipments of apparel and related products were valued at over \$11 billion, compared with \$8.5 billion in 1947. The number of employees increased from 1.1 million to 1.4 million over the same period. While the amount of apparel produced as well as the number of persons employed has increased, it is interesting to note that the total number of factories has declined. In 1955 there were 25,000 establishments as compared with 31,000 in 1947. This decrease is due primarily to the sizable increase in plants employing 250 or more workers.

### **Chicago — A Major Producer**

Chicago, the leading manufacturing center of the Middle West, is second only to New York City in apparel production. In 1955, its 1,000 plants produced merchandise valued at nearly \$500 million, employed 39,000 workers, and paid wages amounting to more than \$112 million.

Many of the nation's leading apparel manufacturers are located within the Chicago industrial district. Such firms as Hart, Schaffner and Marx, Kuppenheimer, and Society Brand, three of the most famous firms in men's clothing, are located there. It is also a major producer of high-quality dresses and leads the nation in the manufacture of casual dresses and housecoats as well as women's fine quality coats and suits. In addition, there are several hundred firms engaged in the manufacture of fabrics, gloves, hats, millinery, neckwear, and uniforms.

A. Stein and Company, the world's largest manufacturer of elastic goods, is also located in Chicago. The firm makes bras, foundation garments, men's belts, and many other elastic products. Among the city's other major producers of elastic goods are Blair, Formfit, Gossard, Kabo, Powell, and Venus. Together, their business is estimated at more than \$50 million annually.

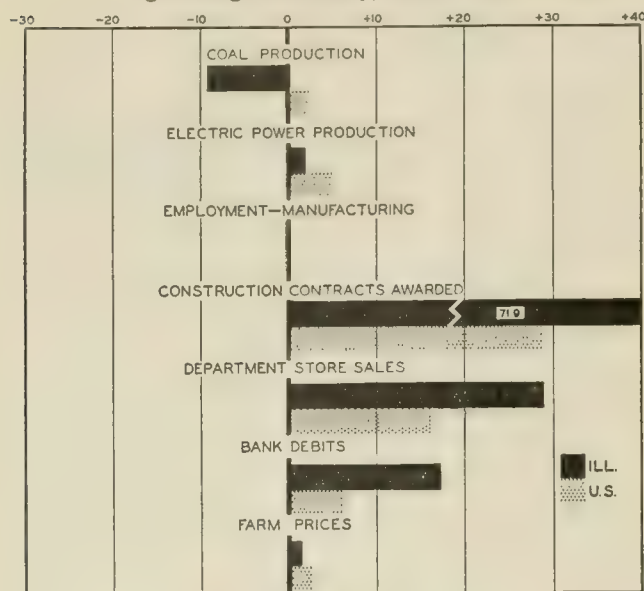
Illinois, as an apparel-producing state, is rated fifth in the nation. Output has remained relatively stable during the past eight years, whereas employment has decreased by 20 percent. Other major apparel-producing states, such as New York, Pennsylvania, New Jersey, California, and Massachusetts, have increased production and employment as well. In addition, there appears to be a definite trend in the textile and apparel industries toward the establishment of factories in the southern states where they are attracted by cheap labor and the absence of other industrial competition. With the continuation of this trend, Illinois may claim a smaller share of the total market. Nevertheless, Illinois is well established and may be expected to continue as a major apparel-producing state.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes February, 1956, to March, 1956



## ILLINOIS BUSINESS INDEXES

Item	March 1956 (1947-49 = 100)	Percentage Change from	
		Feb. 1956	Mar. 1955
Electric power <sup>1</sup> .....	213.5	+ 1.8	+ 9.3
Coal production <sup>2</sup> .....	87.7	- 9.3	+ 2.4
Employment—manufacturing <sup>3</sup> .....	108.2	- 0.2	+ 4.8
Weekly earnings—manufacturing <sup>3</sup> .....	147.9 <sup>a</sup>	- 0.9	+ 6.3
Dept. store sales in Chicago <sup>4</sup> .....	119.0 <sup>b</sup>	+ 8.2	+ 6.3
Consumer prices in Chicago <sup>5</sup> .....	117.7	- 0.5	+ 0.6
Construction contracts awarded <sup>6</sup> .....	354.2	+71.9	+ 6.2
Bank debits <sup>7</sup> .....	182.1	+17.2	+ 0.4
Farm prices <sup>8</sup> .....	74.0	+ 1.3	-10.8
Life insurance sales (ordinary) <sup>9</sup> .....	239.3	+14.5	+12.0
Petroleum production <sup>10</sup> .....	132.6	+ 8.9	+ 6.9

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.  
<sup>a</sup> February data; comparisons relate to January, 1956, and February, 1955. <sup>b</sup> Seasonally adjusted.

## UNITED STATES MONTHLY INDEXES

Item	March 1956	Percentage Change from	
		Feb. 1956	Mar. 1955
	Annual rate in billion \$		
Personal income <sup>1</sup> .....	315.2 <sup>a</sup>	+ 0.7	+ 6.6
Manufacturing <sup>1</sup> .....			
Sales.....	325.2 <sup>a</sup>	- 0.4	+ 4.2
Inventories.....	47.4 <sup>a, b</sup>	+ 1.1	+ 9.5
New construction activity <sup>1</sup> .....			
Private residential.....	13.3	+12.4	- 6.4
Private nonresidential.....	13.0	+ 4.9	+ 7.6
Total public.....	9.5	+15.7	- 0.9
Foreign trade <sup>1</sup> .....			
Merchandise exports.....	16.2 <sup>a</sup>	+ 5.9	+ 9.4
Merchandise imports.....	12.6 <sup>a</sup>	- 2.2	+23.5
Excess of exports.....	3.7 <sup>a</sup>	+48.4	-21.5
Consumer credit outstanding <sup>2</sup> .....			
Total credit.....	35.5 <sup>b</sup>	+ 0.7	+18.7
Installment credit.....	28.0 <sup>b</sup>	+ 0.6	+21.7
Business loans <sup>2</sup> .....	27.4 <sup>b</sup>	+ 4.4	+21.2
Cash farm income <sup>3</sup> .....	21.6	- 0.7	- 4.0
	Indexes (1947-49 = 100)		
Industrial production <sup>2</sup> .....			
Combined index.....	142 <sup>a</sup>	- 0.7	+ 5.2
Durable manufactures.....	157 <sup>a</sup>	- 0.6	+ 4.7
Nondurable manufactures.....	129 <sup>a</sup>	0.0	+ 4.9
Minerals.....	131 <sup>a</sup>	0.0	+ 8.3
Manufacturing employment <sup>4</sup> .....			
Production workers.....	107 <sup>a</sup>	- 0.2	+ 3.3
Factory worker earnings <sup>4</sup> .....			
Average hours worked.....	101	- 0.5	- 0.7
Average hourly earnings.....	147	+ 1.0	+ 5.4
Average weekly earnings.....	148	+ 0.5	+ 4.6
Construction contracts awarded <sup>5</sup> .....	311	+28.1	+11.6
Department store sales <sup>2</sup> .....	118 <sup>a</sup>	0.0	+ 2.6
Consumers' price index <sup>4</sup> .....	115	+ 0.1	+ 0.3
Wholesale prices <sup>4</sup> .....			
All commodities.....	113	+ 0.4	+ 2.5
Farm products.....	87	+ 0.7	- 6.0
Foods.....	99	+ 0.2	- 2.4
Other.....	121	+ 0.3	+ 4.7
Farm prices <sup>3</sup> .....			
Received by farmers.....	85	+ 2.4	- 5.6
Paid by farmers.....	113	+ 0.9	- 0.9
Parity ratio.....	82 <sup>d</sup>	+ 1.2	- 4.7

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for February, 1956; comparisons relate to January, 1956, and February, 1955.  
<sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1956					1955
	Apr. 21	Apr. 14	Apr. 7	Mar. 31	Mar. 24	Apr. 23
Production:						
Bituminous coal (daily avg.).....	1,650	1,675	1,653	1,713	1,655	1,424
Electric power by utilities.....	10,894	10,918	10,846	10,992	11,134	9,697
Motor vehicles (Wards).....	153	160	158	150	155	212
Petroleum (daily avg.).....	7,130	7,156	7,171	7,149	7,163	6,832
Steel.....	143	144	140	142	142	133
Freight carloadings.....	763	742	685	725	697	701
Department store sales.....	113	114	104	122	112	112
Commodity prices, wholesale:						
All commodities.....	113.5	113.4	113.5	112.9	112.8	110.5 <sup>a</sup>
Other than farm products and foods.....	121.3	121.3	121.2	120.8	120.7	115.7 <sup>a</sup>
22 commodities.....	91.9	91.9	90.9	90.2	90.1	90.4
Finance:						
Business loans.....	27,770	27,683	27,578	27,781	27,711	22,530
Failures, industrial and commercial.....	252	255	217	263	208	204

Source: Survey of Current Business, Weekly Supplements.

<sup>a</sup> Monthly index for April, 1955.



# RECENT ECONOMIC CHANGES

## Retail Sales Level

Department store sales, like many other indicators of business activity, were fairly stable in the first quarter of 1956. They increased slightly in April after allowance for seasonal factors, but in the first quarter averaged about 1 percent below the seasonally adjusted fourth quarter. This was 4 percent above the first quarter a year ago and compares with a gain of more than 6 percent between the first quarters of 1954 and 1955 (see chart).

Total retail store sales were also relatively stable in the first quarter, averaging \$15.5 billion a month after seasonal adjustment. This was down less than 2 percent from the fourth quarter of last year and 4 percent above the opening quarter of 1955.

The decline from the fourth quarter was concentrated in the automotive sector, where sales were off about 7 percent. Sales of building material and hardware retailers were also lower, reflecting the construction slowdown, but the decline here was more moderate than in autos. Stores selling furniture and appliances experienced a rise in sales that gave them their best business in five years. Sales of nondurable goods stores were also up from the fourth quarter with sales of restaurants, gasoline stations, drug, and food stores at new highs.

## Installment Credit Extensions High

Consumers were still relying heavily on installment loans to finance their durable goods purchases and other major items in the first quarter of 1956. In March, new installment credit extended amounted to \$3.1 billion, about the same as in March, 1955, though down from last year's peak monthly rates. For the first quarter as a whole, new

extensions totaled \$8.6 billion compared with \$7.9 billion in the first three months of 1955.

Repayments are up considerably from 1955, reflecting last year's \$5.5 billion increase in installment indebtedness. In March of this year repayments rose to \$2.9 billion compared with \$2.7 billion in March a year ago. The resulting excess of extensions over repayments raised outstanding installment loans by \$200 million to slightly under \$28 billion at the end of the month. This was only \$100 million over the 1955 year-end total, since the total outstanding had declined seasonally in January and was unchanged in February. In the same three months of 1955 total installment credit moved up by a half billion dollars.

## Business Loans Survey

The postwar expansion in business activity has pushed the number of Federal Reserve member banks' business loans up almost twofold to 1.3 million and the dollar amount of loans outstanding has more than doubled since 1946, rising to \$31.6 billion. These are among the main findings of a recently published Federal Reserve Board survey of member banks' industrial and commercial loans taken in October of last year.

Although the amount and number of loans has increased in every major business group, there has been a considerable shift in the distribution of loans among industries. Most notable has been the decline in the proportion of business loans accounted for by wholesale and manufacturing and mining concerns and the substantial increase in the proportion accounted for by finance, real estate, construction, and service companies. The latter groups accounted for 42 percent of total loans in October, 1955, compared with 29 percent in 1946. Loans to manufacturing and mining firms accounted for 43 percent of total business loans in 1946 but only 37 percent last October.

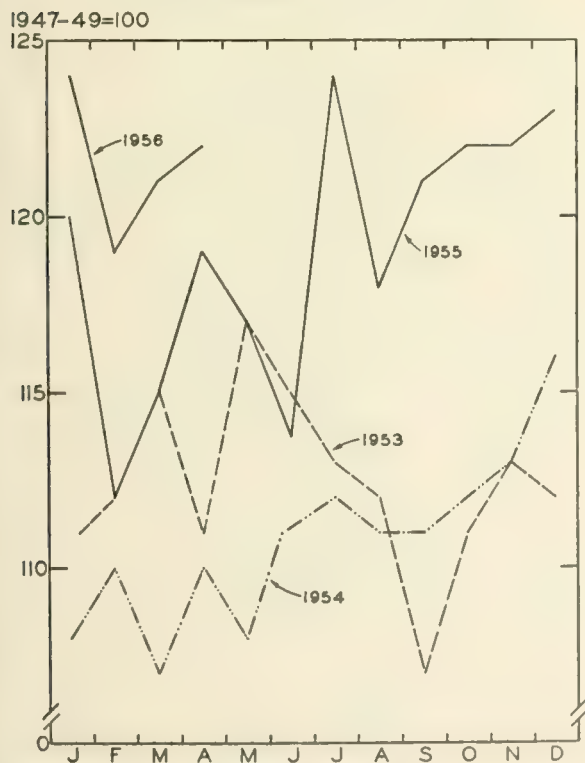
The distribution of loans by asset size of the borrowing firms has also changed considerably. The smallest firms — those having assets under \$50,000 — have declined in importance whereas those with assets of \$50,000-\$5,000,000 increased their proportion of total loans.

## Foreign Aid Lower

The United States' contribution to foreign nations' military and economic strength under the various grant and credit programs amounted to slightly less than \$4 billion in 1955. This was 17 percent below 1954 and the smallest net outflow of funds on aid accounts since the war. Congress has reduced foreign aid appropriations each year for several years, to a low of \$2.7 billion for the current fiscal year. However, the annual rate of aid transfers amounted to \$4 billion in the July-December period of the fiscal year as unexpended appropriations from prior years were used to supplement current appropriations.

Military aid continued downward last year, falling to \$2.2 billion and accounting for 56 percent of total assistance compared with 68 percent in 1954. Transfers of non-military grants and credits rose \$200 million from 1954's postwar low to \$1.7 billion, but much of the increase reflected cash payments to foreign governments to strengthen their military budgets, leaving about the same total as in 1954 for "economic" aid. For the first time in the postwar period less than half of United States aid went to European countries.

DEPARTMENT STORE SALES  
(Seasonally adjusted)



Source: Federal Reserve Board.

## Employment Up

A substantial seasonal rise in agricultural employment and a moderate increase in nonfarm work pushed the number of jobholders up by 900,000 in April to a record for the month of almost 64 million. This was 2.3 million over employment in April, 1955. Accompanying the rise in employment was a decline of 300,000 in unemployment to 2.6 million, or less than 4 percent of the labor force. A year ago 4.6 percent of the labor force was unemployed. Census data in thousands of workers are as follows:

	April 1956	March 1956	April 1955
Civilian labor force.....	66,554	65,912	64,647
Employment.....	63,990	63,078	61,685
Agricultural.....	6,378	5,678	6,215
Nonagricultural.....	57,612	57,400	55,470
Unemployment.....	2,564	2,834	2,962

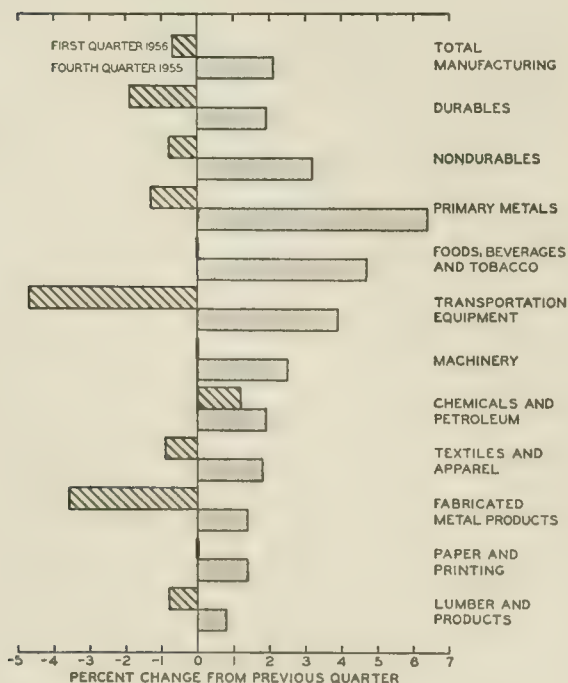
## Output Stable

Manufacturing production has moved virtually sideways since September of last year. Although the over-all tendency was slightly on the downside in the first quarter because of reduced output of durable goods, total production has varied only two points during the past six months — from 144 in October to 146 in December and down to 143 by March. In 1955, on the other hand, manufacturing production advanced an average of almost 3 percent per quarter.

Changes in output from the fourth quarter of last year to the first quarter of 1956 were divergent and generally small. As shown by the accompanying chart, only in the chemical and petroleum industry group was the fourth quarter's growth extended into the first quarter. Most other major industry groups were characterized by unchanged or moderately lower output levels. The sharpest reductions were in the transportation equipment and fabricated metal products industries, where the declines centered on the cutback in output of autos. Production of

### MANUFACTURING PRODUCTION

(Changes in seasonally adjusted data)



Source: Federal Reserve Board

other transportation equipment, particularly railroad cars, continued upward during the quarter.

## The "Hard Sell"

(Continued from page 2)

ing the goods. In food retailing, the real need for some of the new packages is actually less than ever before, since refrigeration is now so generally available. The effort is carried to the point of absurdity in packaging individual pears in separate transparent bags, with individual handles that also serve as price tags. It is made ridiculous by enclosing bars of soap in gold foil. This kind of thing may create a paradise for the package maker but hardly anyone else can gain.

A point not usually mentioned in connection with these packages is that they not only protect but conceal. A product in a "transparent container" may be concealed on all but one side. Little windows are hardly adequate for judging quality. So far as this concealment is a means, not of preventing spoilage, but of transferring it to the buyer, it is wholly without justification.

Furthermore, the package tends to restrict the consumer's choice. The housewife cannot get three good tomatoes without buying six because it is likely that at least one is not presentable in each box. She cannot get a handful of medium-sized onions, because the packages are made up with many more, including all sizes. She finds herself back in the days when the individual grocer was impartial — that is, more or less so — in distributing some of the inferior quality with some of the better in each bag. It is a long step backward from the self-service principles on which the modern supermarket was founded. In meat departments, where wrapping is necessary in any case, the buyer may find packages to his liking. But the stores are no longer equipped to serve efficiently those who want something a little different. The result is, in effect, an attempt to make all consumers conform to the average.

## Must the Bounds Be Overstepped?

Some of these practices are the outgrowth of trends whose beginnings go back many years. When carried to present extremes, the valid objectives sought through years of development may be set aside in favor of the urge for quick profits. Practices that subvert consumer-business relations cannot create good will, but rather call forth adverse reactions. Better Business Bureaus are disturbed by the growth of selling practices that range from the overzealous all the way to the fraudulent. Government agencies and congressional committees are starting investigations on several fronts.

Many businessmen recognize and decry these deficiencies. Sharp practices were soundly condemned at the convention of the Automobile Dealers Association. Supermarket executives are generally apologetic about the trading stamps. Frequently, the same businessmen engage in the very activities they condemn. The excuse is that they are forced into them by the competition. It sounds a little like the wartime consumer who was grabbing all the short supplies he could "before the hoarders got them."

The way to avoid stepping over the borderline between good business practice and bad would seem to lie in adherence to stable principles of efficiency and mutuality. This might involve some sacrifice of profit at times but not necessarily any poorer results over the longer run than those obtainable by a series of departures into expediency.

VLB



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Guide to Electronic Computers

The results of an Army study of 84 electronic computer systems are now available in a book titled *A Survey of Domestic Electronic Digital Computing Systems*, prepared by Martin H. Weik of the Ballistic Research Laboratories, Aberdeen Proving Ground. The report, PB 111996, summarizes questionnaire answers received from both makers and users of the systems.

Information contained in the book includes descriptions of each system, with illustrations, designs, and characteristics; storage capacity; precision and reliability; and instruction codes. Various applications of the systems are discussed. A list of manufacturers, with costs and approximate delivery times, is also given.

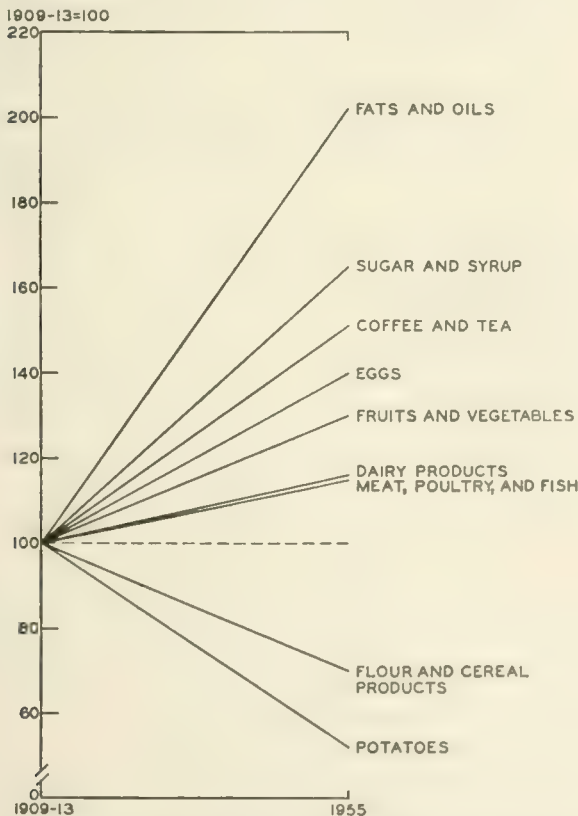
The report is available from the Office of Technical Services, United States Department of Commerce, Washington 25, D. C., for \$4.75.

### American Eating Habits

Changing consumer incomes, new forms of food processing, and technological changes in agricultural production and marketing are some of the many factors behind the constant shift in food consumption patterns. Although there has been relatively little change in the pounds of food consumed per person, there have been significant changes in the types of food eaten.

The accompanying chart illustrates some of these

PER CAPITA CONSUMPTION OF MAJOR FOODS



Source: U. S. Department of Agriculture, *The National Food Situation*, August, 1955, p. 23

changes. In the past fifty years the consumption of fats and oils other than butter has doubled; in contrast, consumption of potatoes has been halved.

### Convenient and Safe

A speed control for revolving doors has been developed by the International Steel Company, of Evansville, Indiana, and New York. It is a centrifugal brake which prevents the door from being turned at a rate faster than twelve revolutions per minute, the maximum speed for safe, convenient use.

A new stair-climbing hand truck called the E-Z Climber is being marketed by the Precision Equipment Company, 3716 Milwaukee Avenue, Chicago 41. Its semi-pneumatic wheels are supplemented by rocker-arms that keep the truck stable in going up and down curbs and stairs, reducing the difficulties and dangers of moving heavy loads. Weighing only 39 pounds itself, the truck has a load capacity of 600 pounds. It is priced at \$34.90.

### Hang on to Your Work

A new level with magnets to hold it in place has been designed for plumbers, sheet metal workers, mechanics, and others who work with ferrous metals. The Alnico permanent magnets hold the level to both flat and round surfaces at any angle the user desires, leaving both hands free for work. The Magno-Level is marketed by Richards Merchandising, Incorporated, 2424 Euclid Avenue, Cleveland, and is priced at \$9.95.

The Delta Power Tool division of the Rockwell Manufacturing Company, 448 North Lexington Avenue, Pittsburgh 8, is manufacturing a special workholding clamp designed for use on drill presses. Called the J-Lock, its chief advantage is that it can be locked and unlocked with a light hammer tap. The clamp will hold materials up to 2½ inches thick. The retail price is \$2.95 per pair.

### Farm Census, 1954

Farms in the United States numbered 4,782,000 in 1954, a decline of more than 10 percent since 1949, according to the *1954 Census of Agriculture*. Florida was the only state not participating in this decrease.

Technological improvements favoring larger farms are a major factor behind this decline. Most of the drop came in the smaller farms; farms with sales of \$10,000 or more increased in number over this same period.

The changing distribution of commercial farms by size class is shown in the following tabulation:

Value of sales	Percent of total	
	1954	1949
\$25,000 or more.....	4.0	2.7
\$10,000 - \$24,999.....	13.5	10.3
\$5,000 - \$9,999.....	21.3	19.5
\$2,500 - \$4,999.....	24.4	23.8
\$1,200 - \$2,499.....	22.9	24.4
\$250 - \$1,199.....	13.9	19.3
Total.....	100.0	100.0

Source: United States Department of Agriculture, *Agricultural Situation*, March, 1956, p. 13.

Although medium-sized farms still account for most of the total value of output, the general upward shift in the distribution is quite evident.

# RETAIL SALES TRENDS IN ILLINOIS

PATRICIA PODD WEBBER, Research Assistant

The recent publication of the *1954 Census of Business* provides a store of new information on retail sales in Illinois, one of the key segments of the State's economy. This information is all the more significant because of the pronounced changes that have occurred in retail sales since 1948, the date of the last census.

Retail sales in Illinois totaled \$11 billion in 1954. They had grown by more than one-fourth since 1948, an increase in total dollar volume exceeded by only four states—California, New York, Texas, and Ohio. This large dollar rise was about evenly split between price advances and increased volume of goods sold.

Despite this increase, the number of retail establishments declined 4 percent over the same period, to about 99,000 in 1954, reflecting the failure of many small stores to weather the competition of large chain and independent stores. As a result, the average sales per store in the State have risen by almost one-third, to \$111,000 in 1954.

## Illinois Fails to Keep Pace

The 26 percent increase in retail sales in Illinois is accounted for by two factors. Most important has been the 20 percent gain in per capita income payments; per capita sales remained at 56 percent of the expanding income payments. Also contributing to the advance was the 7 percent increase in population during this period.

Although an advance of one-fourth in only six years seems large, the State failed to keep pace with the 32 percent growth in the whole of the United States, as indicated in Chart 1. Thirty-one states surpassed the rate of Illinois, Florida topping the list with a 71 percent expansion. California was the only one of the big three to grow faster than the nation as a whole. In general the western and southern regions, which have experienced

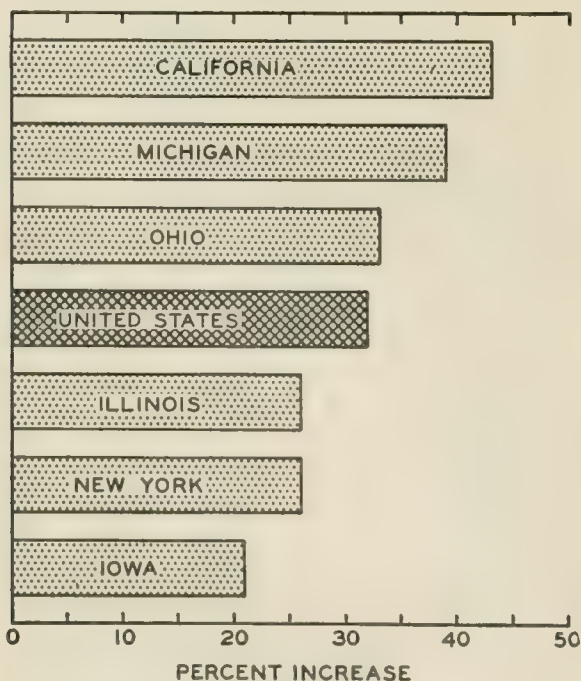
the most recent industrialization and the greatest influx of population, have recorded the largest gains.

The Illinois share of retail sales has also fallen slightly in relation to other states of the central region. Three of the eight states did have growth rates smaller than that of Illinois, but these were the smallest three, Iowa, Minnesota, and Wisconsin, and they did little to offset the rises in Indiana, Michigan, Missouri, and Ohio. The effects of the auto boom are clearly evident in the 39 percent increase in Michigan sales since 1948.

## Sales by Type of Store

All types of stores shared in the rise in total sales in Illinois, although considerable variation is apparent in the rate of growth of the different types. This is brought out in Table 1, which shows the percentage increases in sales since 1948 and the distribution of total sales in 1954 by major classes of stores. Sales of gasoline service stations and of automotive stores have grown most rapidly. The auto industry had not attained full production by 1948, so that the cars available were insufficient to support potential sales by the dealers. General merchandise and apparel stores, on the other hand, had a relatively small rise from 1948 to 1954 because an unusually large portion of income had been going into these more readily available nondurable goods just after the end of the war. Non-store retailers—mail order, door to door, and others—are included in the "other" group in the table; although their sales grew at a rate no faster than total sales in the State, this was enough to maintain Illinois's position as the number one state in this category, the only branch of retail trade for which this is so.

CHART 1. RETAIL SALES IN SELECTED STATES, 1948-54



Source: 1954 Census of Business.

TABLE 1. GROWTH AND DISTRIBUTION OF SALES BY TYPE OF STORE, 1954

Kind of business	Percent increase from 1948	Percent of 1954 total
Gasoline service stations.....	53.9	5.5
Automotive stores.....	43.3	16.3
Furniture, appliance dealers.....	32.2	4.6
Food stores.....	32.1	22.0
Drug, proprietary stores.....	28.4	3.0
Eating, drinking places.....	21.0	9.2
Building materials, hardware, farm equipment dealers.....	17.5	7.3
Apparel, accessory stores.....	7.4	6.9
General merchandise stores.....	4.8	10.1
Other.....	26.4	15.1
Total.....	26.6	100.0

Source: 1954 Census of Business.

As a result of Illinois's somewhat smaller rate of over-all sales growth, few types of stores did as well in the State as they did in the nation generally. Sales of gas stations, for example, advanced 66 percent in the nation as compared with 54 percent in Illinois, and those of apparel stores increased 14 percent in the nation, or twice as rapidly as in the State.

On the other hand, two types of stores did seem to prosper more in Illinois than in the whole United States. Sales of furniture and appliance stores and of suppliers of building materials grew somewhat more in this area than they did generally between 1948 and 1954. This may



well be due to the sharper increase in homebuilding in the Midwest than in the nation during this period.

## Sales in Local Areas

Well over three-fifths of the retail sales made in the State are made in the Illinois portion of the Chicago metropolitan area. Changes there, as a result, influence substantially movements in the State as a whole. In this case the 25 percent rise in the Chicago area was somewhat smaller than that for the remainder of the State, and served to hold the over-all increase to 26 percent. Significantly, the rise in Chicago, the central city, was much less than that in the rest of the area, 16 percent as compared with 56 percent, a striking illustration of the effect that decentralization of industry and population can have on trading patterns.

Although similar effects are evident in most large metropolitan areas throughout the nation, in Illinois there were important deviations. In Chicago, Peoria, St. Louis, and Rock Island-Moline, the trading pattern shows this movement toward the suburbs (Table 2). In Rockford, Springfield, and Decatur, however, retail sales have risen faster in the central city than in the surrounding area. The latter three cities do not have the network of suburbs common to the others, with the result that added shopping facilities for the growing populations have come within the city limits rather than in satellite communities.

**TABLE 2. RETAIL SALES GROWTH IN METROPOLITAN AREAS, 1948-54**

Area	Total	Central city	Rest of area
Chicago.....	25%	16%	56%
Peoria.....	23	13	43
St. Louis <sup>a</sup> .....	23	20	34
Rock Island-Moline....	21	19	25
Rockford.....	25	28	9
Springfield.....	24	26	16
Decatur.....	26	31	-8

<sup>a</sup> Total for St. Louis area includes St. Louis, Missouri, as well as the Illinois portion of the St. Louis metropolitan area. In all other cases only the Illinois portions of the areas are considered.

Source: 1954 Census of Business.

Growth rates for counties ranged from -14.5 percent in Hardin County to 108.1 percent in its near neighbor, Massac County. Many of both the lowest and highest rates are in the southern area of the State, where there has been substantial migration and extraordinary industrial developments. The predominance of mining in Hardin County and the resultant decline in incomes as the demand for coal fell off account for most of the drop in sales. In Massac County, on the other hand, the Federal government recently completed a very large electric power plant for the atomic energy plant at Paducah. Both these developments not only bolstered incomes of the residents but also brought about an influx of new workers to the southernmost counties.

Despite a few notable exceptions such as those near the new atomic power plant, most of the southern counties experienced lower-than-average expansion rates. This is not at all surprising, since the whole of the economy there has been somewhat depressed relative to the rest of the State. Poor agricultural land and the declining demand for coal, the area's major natural resource, have served to keep this area from sharing in the recent boom despite the construction of some new industrial plants.

Moving northward, sales in most of the counties in the central and northern sections of the State seem to

have moved up at about the same rate as the State average. Differences among the counties are not nearly so large as those in the south. Sales in scattered counties have increased faster than average, notably those near the large urban areas as discussed above. Other counties, such as those on the western edge of the State where drought kept farm incomes low during 1954, have not shown as great an expansion as the average.

## Future Prospects

Sales in the future can be expected to grow most rapidly in the areas where income is increasing at a greater-than-average rate. If current patterns are maintained, it is probable that retail activity will continue to grow most in the industrial centers, but with decentralization spreading the effects of this prosperity over larger areas.

Relative maturity may serve to keep the growth rate of Illinois somewhat below that for the nation as a whole. Many of the more rapidly developing states in the south and west, however, may have seen their peak rate of growth in the first decade following the war. As a result there is little danger that Illinois will lose ground in the future as rapidly as it did in the recent past. The enhancement of the central position of Illinois by the opening of Chicago to ocean traffic may mean that the State will not only maintain its position as a leader in trade, but will also advance it.

**CHART 2. RETAIL SALES BY COUNTY, 1948-54**



Source: 1954 Census of Business.

# LOCAL ILLINOIS DEVELOPMENTS

Diversity characterized the movements of the leading indexes of Illinois business activity during March. The early Easter pushed department store sales in March well above those in February and also added to the rise in bank debits. Construction contracts were up more than seasonally, totaling 72 percent more than in the preceding month. Coal production, on the other hand, was substantially lower in March. Other indexes fluctuated only slightly.

Most nonfarm sectors of the State's economy in March remained at levels 5 percent or more above a year ago. Business loans by large Chicago banks were 20 percent above last year. Life insurance sales, department store sales (bolstered by the early Easter), and electric power production were all about 10 percent higher.

## Tax Talk

Under the new Federal gasoline tax refund provision, Illinois farmers will probably save as much as \$5.5 million each year. The new law exempts farmers from paying the Federal tax on gas which they use on the farm, a saving of two cents on each gallon at the current rate. Refunds will be made annually for the year ending June 30. Filings for refunds are to be made with the District Internal Revenue Director between July 1 and September 30.

The Illinois Association of County Officials is pressing to have the State Legislature pass a bill allowing them to levy a tax of one-half cent on retail sales in the unincorporated portions of their counties. The objective is to aid those counties which have a hard time finding funds to meet their growing needs. Such a bill would put the unincorporated areas on the same footing as the cities, which are allowed under the present law to enact such a tax at their discretion.

## Steel Boom Continues

Steel production in the Chicago District continued at capacity levels throughout the early months of 1956. In March production was at 101.7 percent of the rated capacity available at the beginning of the year, compared with only 95.8 percent a year earlier.

A total of seven million net tons of steel was produced during the first quarter of 1956, a new record. January set an all-time monthly high at 2,416,000 net tons. As may be seen in the accompanying chart, January also registered the greatest increase over year-ago production. A much sharper decline occurred in February than a year earlier, despite the extra working day, and although production in March almost regained the high January level, it failed to show the very large advance of March, 1955.

A large measure of the high plateau from March through May last year can be attributed to the unusual late spring bulge in auto demand. Although there are no prospects of such a bulge this year, since auto demand as a whole has declined substantially, other customers have kept steel backlogs up sufficiently to maintain production schedules in the near future. Some of this backlog is due to inventory build-up in fear of a steel strike this summer. If the strike does not materialize, these inventories may be a weakening factor in production later in the year.

## Wholesale Trade

The State's share of sales made by the nation's wholesalers went up slightly between 1948 and 1954, according to the recently released *1954 Census of Business*. Sales of \$20.3 billion were 7.7 percent of the national total, second only to those in New York.

The number of wholesale establishments in the State rose to 16,472 in 1954; of these, 10,442 were merchant wholesalers, and 6,030 were classified as "other," including sales branches of manufacturing and mining companies, petroleum bulk plants and terminals, merchandise agents and brokers, and assemblers of farm products. The increase from 1948 was entirely the result of growth in the merchant group, which gained 1,921 stores, whereas the "other" group declined by 545 establishments.

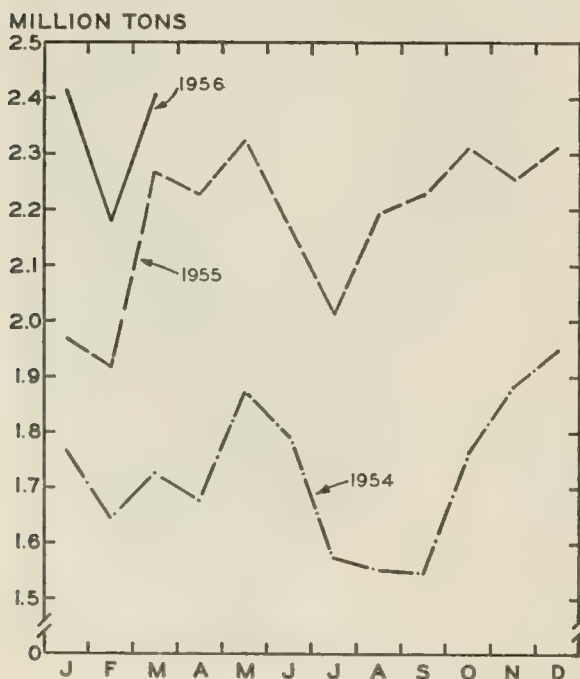
Sales of both groups rose, those of the merchants by one-third to \$7.7 billion, and those of "other" wholesalers by one-tenth to \$12.6 billion. Sales per establishment, on the other hand, rose by only 8 percent in the merchant group as compared with 20 percent in "other" because of the divergent trends in number of outlets.

## Crop Outlook

Belated April showers were welcomed throughout central and northern Illinois, although they did little to ease the acute shortage of moisture in the subsoil. Since last October only about one-fourth to one-half of the normal rain has fallen in the northern two-thirds of the State. Rains falling now can do little to build up any reserve since they are needed by plants already starting. As a result agronomists are suggesting sparser plantings per acre of corn and other water-consuming crops.

The pressure of larger-than-average farm stocks of grains and soybeans is also being felt throughout the State. Although prices of farm products are up sharply since the 1955 harvest, current supplies are more than ample until next fall.

STEEL PRODUCTION, CHICAGO DISTRICT



Source: American Iron and Steel Institute.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

March, 1956

		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b>							
ILLINOIS		\$49,533 <sup>a</sup>	1,100,261 <sup>a</sup>	\$565,824 <sup>a</sup>		\$15,917 <sup>a</sup>	\$15,817 <sup>a</sup>
Percentage change from	Feb., 1956	+72.1	-1.0	+8.9	+29	+17.2	+12.5
	Mar., 1955	+30.7	+7.9	+8.0	+11	+0.4	-1.6
<b>NORTHERN ILLINOIS</b>							
Chicago		\$36,561	844,216	\$411,040		\$14,600	\$13,856
Percentage change from	Feb., 1956	+86.9	-0.4	+9.1	+27	+17.4	+13.5
	Mar., 1955	+39.1	+7.2	+8.5	+10	-0.2	-1.7
Aurora		\$ 594	n.a.	\$ 7,943		\$ 60	\$ 149
Percentage change from	Feb., 1956	+211.0		+4.2	+41	+13.1	+15.2
	Mar., 1955	+65.5		+8.7	+13	+14.1	+10.7
Elgin		\$ 595	n.a.	\$ 5,939		\$ 38	\$ 95
Percentage change from	Feb., 1956	+962.5		+1.1	+41	+12.3	-15.5
	Mar., 1955	+52.6		+9.0	+19	+5.5	-7.1
Joliet		\$ 640	n.a.	\$12,087		\$ 80	\$ 106
Percentage change from	Feb., 1956	+92.8		+5.1	+37	+18.3	+15.8
	Mar., 1955	-74.2		+10.5	+15	+13.3	+5.8
Kankakee		\$ 310	n.a.	\$ 5,581		n.a.	\$ 45
Percentage change from	Feb., 1956	+6.2		+13.9	n.a.		+3.0
	Mar., 1955	+76.1		+1.8			-1.8
Rock Island-Moline		\$2,683	22,984	\$10,036		\$ 90 <sup>b</sup>	\$ 160
Percentage change from	Feb., 1956	+207.3	-9.8	+10.9	n.a.	+9.1	+6.8
	Mar., 1955	+187.3	+3.5	+3.4		+4.7	+5.1
Rockford		\$1,474	39,251	\$19,053		\$ 189	\$ 244
Percentage change from	Feb., 1956	+101.6	-1.2	+17.9	+59 <sup>c</sup>	+17.8	+12.0
	Mar., 1955	-43.4	+11.9	+17.3	+33 <sup>c</sup>	+13.8	-4.0
<b>CENTRAL ILLINOIS</b>							
Bloomington		\$ 530	8,345	\$ 5,669		\$ 63	\$ 105
Percentage change from	Feb., 1956	+265.5	+0.2	+18.6	n.a.	+21.8	+7.6
	Mar., 1955	-6.0	+15.8	+3.1		-1.7	-2.9
Champaign-Urbana		\$ 610	10,459	\$ 8,186		\$ 66	\$ 104
Percentage change from	Feb., 1956	+126.8	-3.8	+9.3	n.a.	+13.0	+5.6
	Mar., 1955	+23.7	+9.4	+10.0		+22.7	+4.4
Danville		\$ 140	11,058	\$ 6,749		\$ 55	\$ 58
Percentage change from	Feb., 1956	+115.4	+2.4	+9.2	+43	+21.5	+3.6
	Mar., 1955	-22.2	+43.9	+10.8	+36	+15.1	-3.3
Decatur		\$ 854	31,828	\$11,889		\$ 123	\$ 136
Percentage change from	Feb., 1956	+83.7	-3.3	+5.4	+42 <sup>c</sup>	+14.6	+22.4
	Mar., 1955	+11.1	+17.6	+6.1	+20 <sup>c</sup>	+18.6	+3.3
Galesburg		\$ 988	8,099	\$ 4,367		n.a.	\$ 34
Percentage change from	Feb., 1956	+502.4	-7.9	-5.5	n.a.		+4.8
	Mar., 1955	+210.7	+8.1	+0.9			-10.5
Peoria		\$1,471	50,000 <sup>c</sup>	\$18,478		\$ 227	\$ 250
Percentage change from	Feb., 1956	+1.5	-4.0	+8.4	+38 <sup>c</sup>	+14.8	-9.0
	Mar., 1955	+95.9	+4.6	+10.0	+15 <sup>c</sup>	+7.5	+4.2
Quincy		\$ 539	8,563	\$ 5,352		\$ 39	\$ 64
Percentage change from	Feb., 1956	+230.7	-10.6	+16.4	+30	+13.3	-2.6
	Mar., 1955	+64.3	+11.4	+5.2	+5	-2.8	-16.5
Springfield		\$ 824	31,834 <sup>c</sup>	\$13,785		\$ 113	\$ 264
Percentage change from	Feb., 1956	-68.6	-0.9	+5.3	n.a.	+10.4	+10.3
	Mar., 1955	+118.0	+6.2	+0.5		+2.3	-6.4
<b>SOUTHERN ILLINOIS</b>							
East St. Louis		\$ 469	13,225	\$ 9,662		\$ 130	\$ 61
Percentage change from	Feb., 1956	-28.2	-2.6	+1.7	n.a.	-9.9	+7.6
	Mar., 1955	+24.1	+10.9	-2.1		-7.4	-16.8
Alton		\$ 109	13,434	\$ 5,158		\$ 44	\$ 35
Percentage change from	Feb., 1956	-45.8	+1.9	+4.0	n.a.	+22.4	+18.2
	Mar., 1955	+0.9	+7.9	-3.1		+2.4	+4.4
Belleville		\$ 142	6,964	\$ 4,849		n.a.	\$ 52
Percentage change from	Feb., 1956	-73.9	-2.1	+16.0	n.a.		+18.2
	Mar., 1955	-61.2	+16.4	+7.4			+15.6

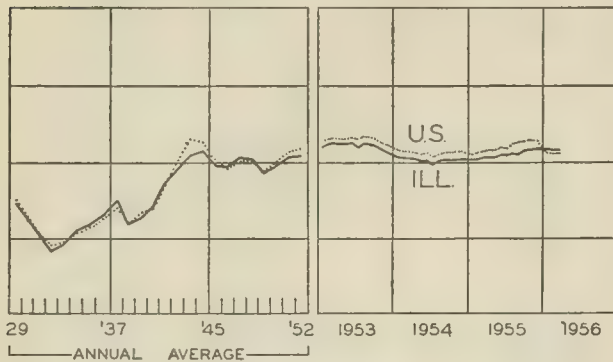
<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.

Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for October, 1955, the most recent available. Comparisons relate to September, 1955, and October, 1954. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh Chicago and Eighth St. Louis Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

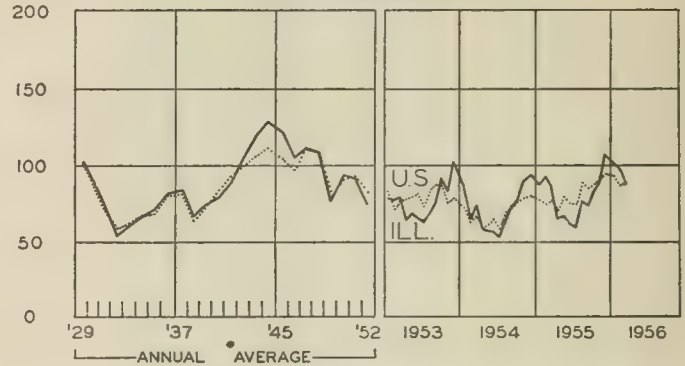
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

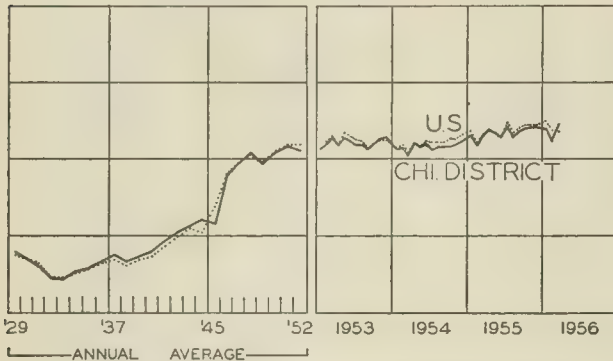
EMPLOYMENT-MANUFACTURING



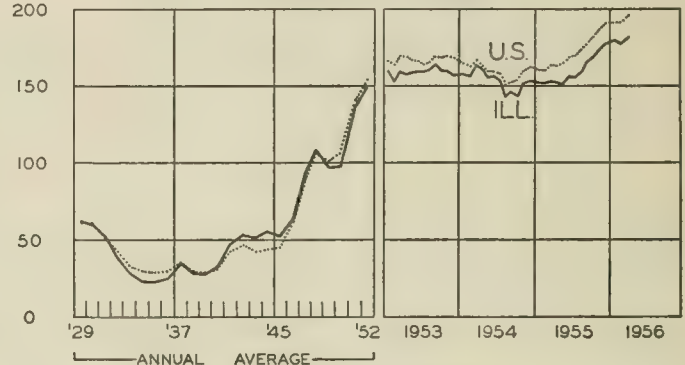
COAL PRODUCTION



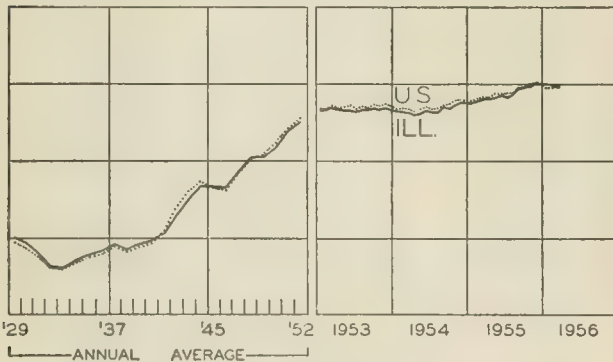
DEPARTMENT STORE SALES



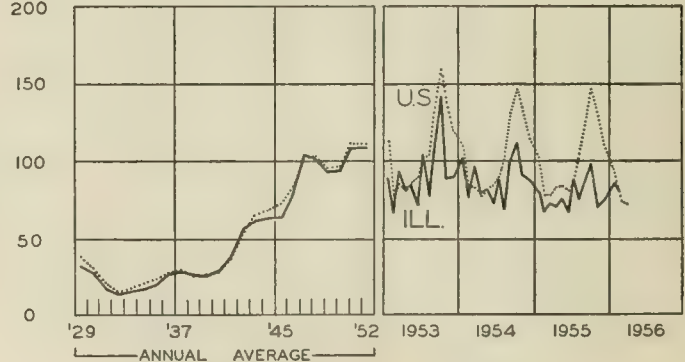
BUSINESS LOANS



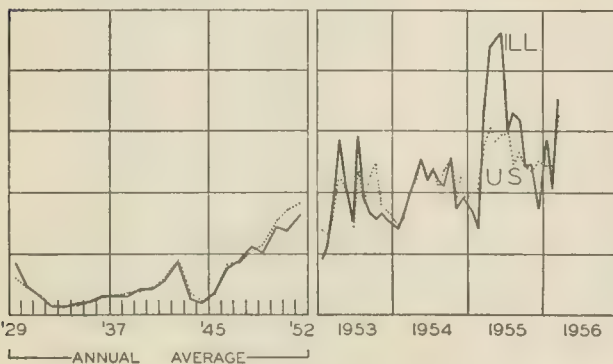
AVG. WKLY. EARNINGS — MANUFACTURING



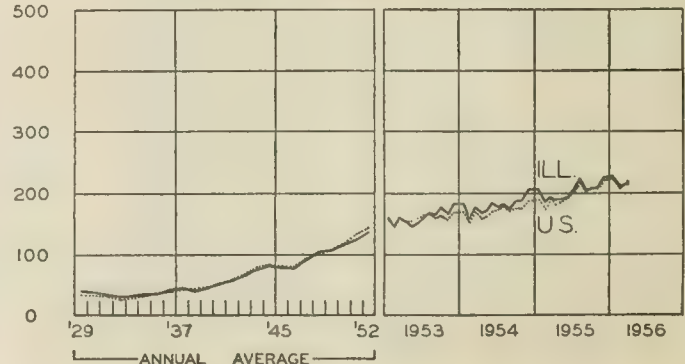
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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## HIGHLIGHTS OF BUSINESS IN MAY

Signs of trouble appeared on the industrial scene in May as automobile sales failed to come up to earlier expectations. New car sales this year generally have been about 25 percent below last year, with the result that inventories of new cars in dealers' lots exceeded 900,000 by the middle of the month as compared with 200,000 less at the same time last year. With roughly four months of the model year remaining, production is being cut back sharply to help dealers clear their stocks before the 1957 models appear on the market.

The cutbacks will affect the many suppliers of the auto firms as well as the manufacturers themselves. Although producers of steel and other primary products were still operating at high levels in May, summer orders for these products have been reduced by auto producers as well as by appliance and farm implement manufacturers, whose sales have also been below expectations.

### Employment Picture Good

Despite the layoffs in the automobile industry, total civilian employment in May set a new high for the month at 65.2 million and unemployment was no higher than the mid-April figure of 2.6 million.

The employment figure was about 1.2 million higher than the previous month and 2.5 million above employment in May of last year. Expansion in farm activity and a sharp gain in construction work, reflected also in higher demand for fabricated steels and for stone, clay, and glass products, were the principal factors acting to boost employment.

Employment in manufacturing as a whole declined slightly from the April figure to 16.6 million. The dip was accompanied by declines in the length of the factory workweek, to 40 hours, and in average weekly earnings of production workers. At \$78.40, average weekly pay was 59 cents below the April figure though well above last May.

### Construction Activity High

The value of new construction put in place in May rose seasonally to \$3.7 billion, the same as last May. The increases in May occurred in all types of construction. Record activity was reported in commercial building, educational building, public utility construction, and road building and other public service enterprises. Private in-

dustrial building was also sharply higher and at a new monthly peak.

Construction outlays for the first five months of this year amounted to \$15.8 billion, slightly ahead of the corresponding figure for last year. That further gains may be in prospect is indicated by the report of the F. W. Dodge Corporation that contract awards in May for future construction in the 37 states east of the Rocky Mountains were 12 percent above awards made last May. This was true of both residential and nonresidential awards.

### Capital Spending Outlook Bright

The outlook for business expenditures on new plant and equipment, one of the mainstays of the current boom, continues promising. Expenditures for this purpose are expected to rise from an annual rate of \$32.8 billion in the first quarter of this year to \$34.8 billion in the second quarter and to a new peak of \$36.7 billion in the third quarter, according to the latest government survey on the subject.

Increased outlays for capital goods in the third quarter were planned by all major industry groups as compared with the third quarter of last year. Industries planning to spend 50 percent or more above last summer's levels included chemicals, iron and steel, nonferrous metals, autos, other transportation equipment, paper, stone, clay, and glass, and the railroads. Nonmanufacturing industries, as a rule, had scheduled more moderate increases.

### Continued Inventory Accumulation

Another sharp increase in business inventories occurred during April as the book value of holdings mounted \$900 million, well above the usual seasonal increase. This brought the total value of inventories at the beginning of May to \$85.7 billion, as compared with \$78.5 billion at the beginning of May last year.

On a seasonally adjusted basis the rise in inventories during April amounted to \$600 million. The great bulk of this increase, \$500 million, took place in manufacturers' holdings, much of it in the machinery and aircraft industries.

Business sales, on the other hand, increased only fractionally after seasonal adjustment, while declining sharply without seasonal adjustment. Retail sales were down on both bases, both in durable and nondurable lines.

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## Outlook for Fiscal 1957

During the early months of 1956, the economy remained steady on the high plateau reached in the latter part of 1955. Continuing advances in some sectors—particularly business expenditures for plant and equipment—were offset by declines in others—particularly housing and autos. This inability to continue the over-all advance was described here in December as the prelude to recession.

Since the beginning of April, the signs of weakness have multiplied. It now appears unlikely that the level of activity can be fully maintained. The second quarter will not be much below the first, but the stage is set for an acceleration of the downturn in the third quarter. Hopes turn, therefore, to the best alternative to steady advance, namely, a brief decline into the third quarter followed by an upsurge into new high ground in the fourth. Is this a realistic prospect?

### Two "Soft Spots"

To get a quick recovery it will be necessary for the two sectors that have been the early "soft spots" to reverse downward movements currently in progress. Residential construction is down from an annual rate of 1.4 million units started in the early months of 1955 to 1.1 million units in the same months of 1956. This decline is often viewed as being due mainly to monetary tightness. Once builders are able to get adequate financing, according to this view, the boom will be resumed.

There is no easy way to evaluate this argument. Some recent steps to ease restrictions on mortgage credit have not shown much effect, but it may be too early to tell what will be accomplished. On the other hand, the basic factors controlling the housing cycle are adverse to recovery. Rates of family formation have fallen sharply from the postwar peak and are well below the current rate of building. In other words, new construction already exceeds the long-term growth in needs and the accumulation of units constantly tends toward saturation of the market. Increases in unemployment will have the effect of further restricting demand. The decline in construction thus seems likely to continue as long as activity in general is falling.

In the case of autos, the great white hope lies in the introduction of new models in the fall. The attraction of these new models, it is assumed, will pull sales out of the

doldrums and rebuild prosperity. Unfortunately, announcements by some companies indicate that major model changes will not be as general as had been expected.

Unfortunately, also, there are no striking new colors, as in 1955, to make it obvious that a car is the latest model. Nowhere in years of previous experience was the sales stimulus attributable to model changes anywhere near as important as in 1955. As a rule, the new model stimulus is far less important than the change in income as a factor determining demand.

The auto market, like housing, has yet to feel the secondary effects of a decline in activity. As soon as income can no longer be maintained, the decline will react with disconcerting impact on the car market. It may be that the sales declines already experienced have been sufficient to eliminate the excessive buying of 1955, bringing purchases into line with current income. Past declines offer no assurance, however, that sales will not go lower with falling income; and they have left the industry with an inventory problem that must be solved by further production cuts in the summer months.

### Inventory Reversal Takes Over

Looking at business inventories more generally, it is clear that this problem is not confined to the auto industry. In fact, seasonally adjusted declines in auto stocks during April and May lowered the over-all rate of accumulation in these months. In other lines of business, accumulation has continued at near-peak rates.

The over-all ratio of inventories to sales has recently moved above the corresponding months of 1955. This indication of an adverse position is bad enough, but the situation is actually worse than indicated. Inventories are not fully priced up to the level of current sales; a greater amount of buying for inventory is included in the sales base; and the inventory-sales ratio should decline from year to year in accordance with the long-term downward trend. What it shows, therefore, is that the excessive rate of accumulation prevailing since the latter part of 1955 is now producing an absolute excess of inventories.

The accumulation must be stopped. It can only be stopped by cutting production. But then it will not be enough merely to stop. At the lower level of production and sales, liquidation will be called for. This prospective reversal of the inventory movement now dominates the outlook for the months just ahead.

Much of the accumulation has been in durable goods, encouraged by the prospect of higher prices for metals. In the steel industry, current wage negotiations hold the threat of shortages or higher prices, since there may be either a strike or a settlement involving higher costs. Either of these threats is an inducement to accumulate inventories and a goodly portion of current steel production has been going into inventory holdings.

Such accumulation has a definite terminal date. If a settlement is reached, the incentive to accumulate will disappear with the effective date of the new prices, leaving a void in ordering as stocks are run off. This has been the recent experience of the copper industry. If there is a strike, liquidation will be sharper, effecting a quick reduction in stocks of steel. This would disturb the pattern of the business recession to some extent, by hastening the adjustment, but would not change business prospects substantially over the longer term.

Leaving the possibility of a steel strike aside, it seems unlikely that inventory liquidation will reach more than a

(Continued on page 6)



### ILLINOIS—RECREATIONAL PLAYGROUND

In 1955 Illinois ranked fifth in the nation in popularity as a vacationland, bowing only to New York, Florida, California, and Michigan. Increased interest in the State's historic events has been promoted through a "tell and sell Illinois" program and through the adoption by the General Assembly of the "Land of Lincoln" slogan.

Vacationers interested in the scenic beauty of streams and woodlands may be enticed by the numerous beautiful parks and memorials, and may take the opportunity to engage actively in camping, boating, hunting, or fishing at the many wildlife refuges and public hunting and fishing grounds. Others, who find the hustle and bustle of the city to their liking, can enjoy the booming industrial and educational activities of Chicago, America's second largest city.

#### Land of Lincoln

Much of the attraction within the State is associated with the memory of Abraham Lincoln, whose life has left an imprint upon Illinois that is unequaled anywhere else in the nation. Abraham Lincoln spent much of his early manhood here and the notable events of his life have been commemorated by memorials ranging from the Lincoln Trail Monument near Lawrenceville, which marks his point of entrance into Illinois, to the majestic Lincoln Tomb in Oak Ridge Cemetery at Springfield.

At New Salem State Park, 18 miles northwest of Springfield, is an authentic restoration of the town where Lincoln lived for six years. The Lincoln Log Cabin State Park, south of Charleston, is a reproduction of the last home of Lincoln's father and is surrounded by a rail fence of the exact type which earned Lincoln the nickname of "The Rail Splitter." Nearby is the Moore Home, a State memorial, where Lincoln visited his stepmother shortly before he became President.

Among the other Lincoln memorials are the court houses at Mt. Pulaski, Metamora, and Lincoln, in which he practiced law; the old State House in Vandalia, where he served his first term as legislator; and the Bryant Cottage at Bement, where Lincoln and Douglas arranged for their famous debates. At Springfield, in addition to the Lincoln tomb, may be seen the only house which Lincoln ever owned, as well as other historical spots connected with his life and career.

#### State Parks

While the historical significance of Abraham Lincoln tends to be of great interest, there are many other parks and memorials which are historic and picturesque in nature. To mention only a few: the Pere Marquette State Park near Grafton, largest of all Illinois State parks, is named for Father Jacques Marquette, famous French explorer; Giant City, south of Carbondale, is located in the Illinois Ozarks and has some of the most interesting and scenic rock formations in the nation; the Mississippi Palisades area, north of Savanna, is one of the most beautiful in the State, with a sweeping view of the river

from the tops of the high palisades; Starved Rock, between Ottawa and LaSalle, provides a wealth of scenic beauty and is rich in dramatic historic happenings; and White Pines Forest, west of Oregon, contains the largest southernmost stand of white pines in the United States.

Illinois has many State parks with hiking trails, bridle paths, picnic grounds, swimming pools, and other recreational facilities. Reasonably priced overnight accommodations with meals are provided at the Giant City, Pere Marquette, Starved Rock, and White Pines Forest parks, and dining room facilities are available at the Black Hawk and New Salem parks. In addition, public camping is permitted in 31 parks, and trailer camps with modern bath houses and water and light facilities have been provided at several locations.

#### Hunting and Fishing

There are 15 public hunting areas throughout the State from which a combination of pheasant, quail, duck, geese, raccoon, rabbit, and other game may be taken. During the 1954-55 season 515,709 hunters were licensed, but only 24,761 secured permits to hunt on public areas.

Illinois is perhaps best known for its duck and geese hunting. For example, the area around Horseshoe Lake and that along the Illinois River within a 25-mile radius of Havana, from Rice Lake to Sanganois, is invaded annually during duck season by several thousand gun-toting enthusiasts who think nothing of sitting for hours in a freezing rain for a shot at these swift and crafty waterfowl. Many sections where sportsmen's clubs are active also provide very good pheasant hunting, and the Illinois Department of Conservation has made great strides in the development of wildlife areas.

Over one million people participate in fishing throughout Illinois each year. Nearly 400 principal natural water reservoirs are available to these fishermen, but the problem of water pollution resulting from industrial use has become severe in some areas. To supplant these waters and to provide fishing in areas having few or no fishing waters, the State has created numerous artificial lakes and ponds.

Of particular interest is Crab Orchard Lake, between Carbondale and Marion. Approximately ten miles long and five miles wide at its widest part, it has been well stocked with fish and is becoming popular as a southern Illinois recreational center.

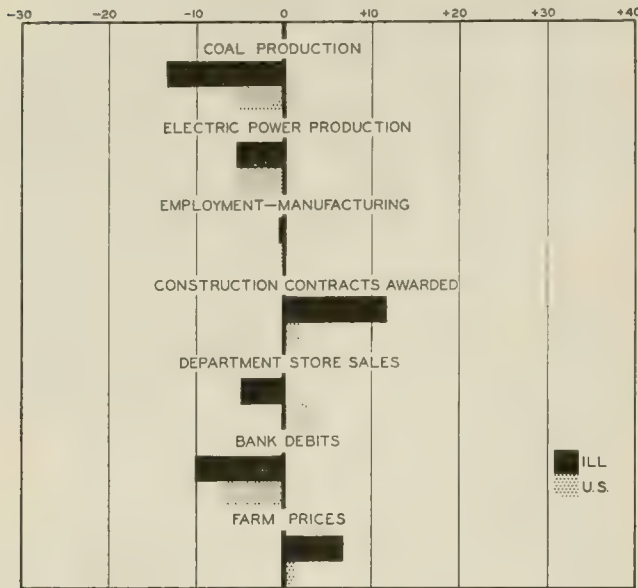
The State of Illinois has as its objective a State park or recreational area within 50 miles of every community. It is progressing rapidly toward its goal, but many persons in Illinois are actually unaware of the many conveniences and accommodations at their service. In order to familiarize Illinois residents as well as out-of-state visitors with these facilities, the Division of Department Reports, State House, Springfield, furnishes upon request an excellent map showing the location of State parks and memorials, public hunting and fishing grounds, and other points of interest.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes March, 1956, to April, 1956



## ILLINOIS BUSINESS INDEXES

Item	April 1956 (1947-49 = 100)	Percentage Change from	
		March 1956	April 1955
Electric power <sup>1</sup> .....	201.8	- 5.5	+ 7.0
Coal production <sup>2</sup> .....	75.9	-13.5	+16.5
Employment—manufacturing <sup>3</sup> ...	107.6	- 0.6	+ 3.8
Weekly earnings—manufacturing <sup>3</sup>	149.0 <sup>a</sup>	+ 0.7	+ 6.0
Dept. store sales in Chicago <sup>4</sup> ...	115.0 <sup>b</sup>	- 3.4	+ 3.6
Consumer prices in Chicago <sup>5</sup> ...	118.1	+ 0.3	+ 1.0
Construction contracts awarded <sup>6</sup>	395.3	+11.6	-10.4
Bank debits <sup>7</sup> .....	163.8	-10.1	+ 7.1
Farm prices <sup>8</sup> .....	79.0	+ 6.8	- 4.8
Life insurance sales (ordinary) <sup>9</sup> ...	220.9	- 7.7	+11.0
Petroleum production <sup>10</sup> .....	127.1	- 4.2	+ 4.3

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.

<sup>a</sup> March data; comparisons relate to February, 1956, and March, 1955. <sup>b</sup> Seasonally adjusted.

## UNITED STATES MONTHLY INDEXES

Item	April 1956	Percentage Change from	
		March 1956	April 1955
	Annual rate in billion \$		
Personal income <sup>1</sup> .....	317.1 <sup>a</sup>	+ 0.6	+ 6.1
Manufacturing <sup>1</sup> .....			
Sales.....	327.6 <sup>a</sup>	+ 0.7	+ 5.0
Inventories.....	47.9 <sup>a, b</sup>	+ 1.1	+10.6
New construction activity <sup>1</sup>			
Private residential.....	14.5	+ 8.5	- 8.5
Private nonresidential.....	13.5	+ 3.8	+ 7.4
Total public.....	11.0	+17.1	+ 0.1
Foreign trade <sup>1</sup>			
Merchandise exports.....	18.9 <sup>c</sup>	+16.0	+17.1
Merchandise imports.....	13.2 <sup>c</sup>	+ 4.7	+ 7.8
Excess of exports.....	5.7 <sup>c</sup>	+54.4	+46.3
Consumer credit outstanding <sup>2</sup>			
Total credit.....	36.0 <sup>b</sup>	+ 1.2	+17.3
Installment credit.....	28.3 <sup>b</sup>	+ 1.1	+20.2
Business loans <sup>2</sup> .....	27.8 <sup>b</sup>	+ 1.6	+23.5
Cash farm income <sup>3</sup> .....	n.a.	.....	.....
	Indexes (1947-49 = 100)		
Industrial production <sup>2</sup>			
Combined index.....	142 <sup>a</sup>	+ 0.7	+ 4.4
Durable manufactures.....	159 <sup>a</sup>	+ 1.3	+ 5.3
Nondurable manufactures.....	128 <sup>a</sup>	0.0	+ 1.6
Minerals.....	130 <sup>a</sup>	0.0	+ 9.2
Manufacturing employment <sup>4</sup>			
Production workers.....	107 <sup>a</sup>	+ 0.2	+ 2.1
Factory worker earnings <sup>4</sup>			
Average hours worked.....	101	- 0.5	- 0.2
Average hourly earnings.....	147	0.0	+ 4.8
Average weekly earnings.....	148	- 0.5	+ 0.3
Construction contracts awarded <sup>5</sup>	316	+ 1.6	+ 4.3
Department store sales <sup>2</sup> .....	122 <sup>a</sup>	+ 0.8	+ 2.5
Consumers' price index <sup>4</sup> .....	115	+ 0.2	+ 0.6
Wholesale prices <sup>4</sup>			
All commodities.....	114	+ 0.8	+ 2.9
Farm products.....	88	+ 1.6	- 6.6
Foods.....	101	+ 1.3	- 2.0
Other.....	122	+ 0.6	+ 5.2
Farm prices <sup>3</sup>			
Received by farmers.....	86	+ 1.2	- 5.5
Paid by farmers.....	114	+ 0.9	0.0
Parity ratio.....	82 <sup>d</sup>	0.0	- 5.7

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp. <sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for March, 1956; comparisons relate to February, 1956, and March, 1955. <sup>d</sup> Based on official indexes, 1910-14 = 100. n.a. Not available.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1956					1955
	May 26	May 19	May 12	May 5	Apr. 28	May 28
Production:						
Bituminous coal (daily avg.).....thous. of short tons..	1,687	1,633	1,670	1,665	1,693	1,541
Electric power by utilities.....mil. of kw-hr.....	10,927	10,875	10,837	10,815	10,867	9,976
Motor vehicles (Wards).....number in thous.....	130	127	128	135	149	198
Petroleum (daily avg.).....thous. bbl.....	7,071	7,071	7,029	7,084	7,146	6,655
Steel.....1947-49 = 100.....	139	136	136	138	144	135
Freight carloadings.....thous. of cars.....	788	779	778	771	778	790
Department store sales.....1947-49 = 100.....	117	122	129	125	119	114
Commodity prices, wholesale:						
All commodities.....1947-49 = 100.....	114.4	114.3	113.9	113.8	113.7	109.9 <sup>a</sup>
Other than farm products and foods.....1947-49 = 100.....	121.7	121.8	121.8	121.4	121.4	115.5 <sup>a</sup>
22 commodities.....1947-49 = 100.....	90.4	90.8	90.8	92.1	92.1	89.1
Finance:						
Business loans.....mil. of dol.....	28,093	28,203	28,031	28,053	27,842	22,641
Failures, industrial and commercial.....number.....	273	279	258	277	236	204

Source: Survey of Current Business, Weekly Supplements.

<sup>a</sup> Monthly index for May, 1955.



# RECENT ECONOMIC CHANGES

## GNP Gain Slows

Total output of goods and services continued to rise in the first quarter, but the gain over the fourth quarter of 1955 was modest compared with last year's quarterly advances. The increase in gross national product in the first quarter of 1956 was \$1.3 billion, bringing the total to a seasonally adjusted annual rate of \$398.6 billion. By comparison, the increase in the fourth quarter of last year was \$5.3 billion.

### GROSS NATIONAL PRODUCT OR EXPENDITURE

(Seasonally adjusted, billions of dollars at annual rates)

	1st Qtr. 1956	4th Qtr. 1955	1st Qtr. 1955
Gross national product.....	398.6	397.3	375.3
Personal consumption.....	258.8	257.2	245.8
Durable goods.....	33.9	34.8	34.4
Nondurable goods.....	129.9	128.8	122.4
Services.....	95.1	93.6	89.0
Domestic investment.....	62.4	63.2	54.1
New construction.....	31.6	32.3	31.2
Producers' durable equipment	26.8	25.5	21.5
Change in business inventories	4.0	5.3	1.5
Nonfarm inventories only..	4.0	5.1	1.5
Foreign investment.....	.0	-.3	-.4
Government purchases.....	77.4	77.2	75.8

### INCOME AND SAVINGS

National income.....	n.a.	332.2	311.4
Personal income.....	313.6	311.5	293.6
Disposable personal income.....	277.0	276.0	261.0
Personal saving.....	18.2	18.8	15.3

The first quarter slowdown reflects the turnaround in consumer expenditures for durable goods, particularly automobiles and new houses. These declines were more than offset by increased expenditures for consumer nondurable goods and services and producers' durable equipment.

## Service Expenditures

As noted above, consumer expenditures for services were important in maintaining the advance in gross national product during the first quarter. These outlays have been equally important over the longer term as growth and stabilizing factors in total consumption expenditures. Except for a fractional decline in 1938, consumer expenditures for services have increased every year since the depression low of 1933, thus limiting the effects of occasional declines in expenditures for commodities since the thirties.

Expenditures for housing and household operation are the most important component in service expenditures, accounting currently for about half of the total. As shown by the accompanying chart, expenditures for housing have risen less than the average for total services, thus reflecting the slower rise in rents than in other prices. On the other hand, expenditures for household operation have risen more than the average as the housing boom brought with it greater use of electricity, gas, water, and telephone service and substantial maintenance and repair expenditures for homes and their contents.

Although a relatively small item in the total, expenditures for private education and research have exhibited the most phenomenal gain since 1929, rising fourfold over the period illustrated. Personal business expenditures have increased less than average, but the smaller advance is misleading because the 1929 base is abnormally dis-

torted by high brokerage fees and other charges associated with speculation in the stock market in 1929.

## Record Debt Advance

The nation added more to its debt during 1955 than in any other peacetime year. Net public and private debt totaled \$658 billion at the end of 1955, up \$51 billion over 1954. The increase compares with a rise of \$21 billion in 1954 and the previous postwar peak of \$43 billion in 1950.

The bulk of 1955's net borrowing originated in the private sector of the economy. Corporations added \$19 billion to their total indebtedness, an amount exceeded only in 1950 and 1951. Individual and noncorporate borrowing moved up by \$26 billion to \$192 billion at year-end. Home builders borrowed a record \$15 billion to finance the sizable volume of new homes started in 1955, and non-mortgage debt rose by \$11 billion.

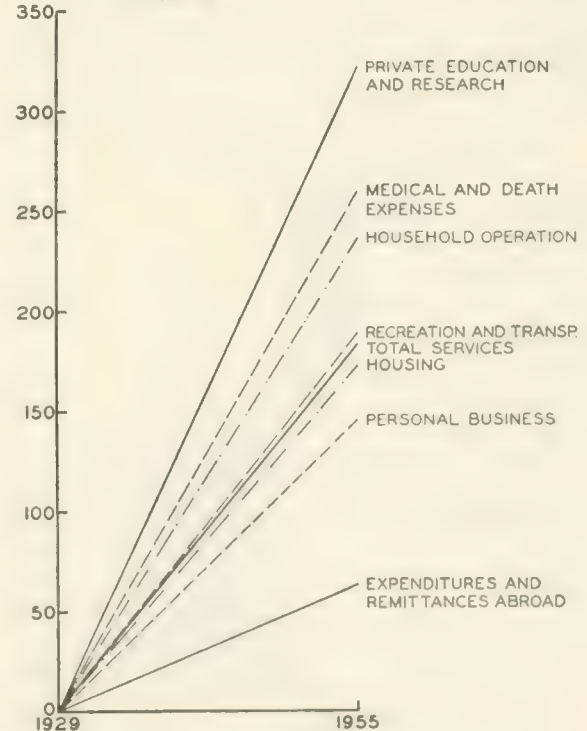
The Federal government increased its net debt by less than a billion dollars to \$231.5 billion. The rise was the smallest since 1951. At the state and local levels, high rates of new borrowing continued into 1955. In the year ended last June, state and local governments added \$5 billion to their outstanding indebtedness, bringing the total to \$38 billion.

## Savings Rate Slowed

Individuals' record volume of borrowing in 1955 substantially offset new liquid saving that took place during the year. Despite the fact that individuals added materially to their savings in all forms of liquid assets except currency and bank deposits, the increase in asset holdings by individuals, as estimated by the Securities and Ex-

### CONSUMER EXPENDITURES FOR SERVICES

#### PERCENT INCREASE



Source: U. S. Department of Commerce.

change Commission, amounted to only \$8 billion compared with \$11.3 billion in 1954 and with equal or higher rates in each of the previous three years.

Individuals acquired \$5.7 billion of government and corporate securities in 1955 compared with liquidation of such assets of \$700 million a year earlier. The important elements in this increase were a rise of \$1.6 billion in purchases of nonsavings United States government bonds and an increase of \$2.4 billion in individuals' holdings of corporate issues. There was a continuation of the steady growth in private insurance and pension reserves and in individuals' investment in savings and loan association shares. Expansion of individuals' bank accounts was held to \$4.3 billion last year, as funds were diverted into securities, housing, and consumer durables.

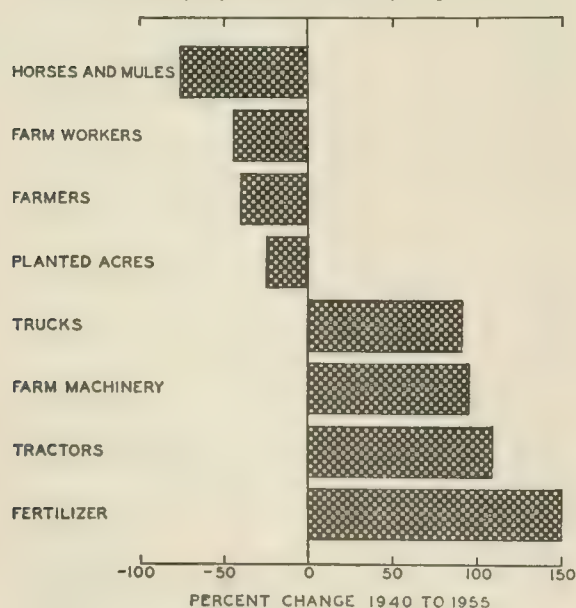
Offsetting these changes was the record increase in individual debt. This amounted to \$18.2 billion—a smaller increase than noted for individual and noncorporate debt in the preceding section since SEC counts only mortgage debt on 1-to-4-family nonfarm dwellings and omits noncorporate business debt from consideration.

## Farm Expenses

Since 1940 farm operators' production expenses have moved up 232 percent, to \$22.4 billion in 1955. The rise has been paced by depreciation charges on equipment and buildings, up 400 percent, and fertilizers, up 300 percent. Smaller increases occurred for hired labor, taxes on farm property, and farm mortgage interest payments.

Changes in expenses reflect a composite of differential rates of change in the use of various resources and in farm cost rates and prices paid for production items. As shown by the chart, a given volume of farm output could be produced in 1955 on fewer farms with less land, labor, and work animals, but with more machinery and fertilizer. Thus, though farm wage rates have soared 300 percent since 1940, and despite a 35-percent increase in output over the period, the use of labor has gone down so that the increase in farmers' wage expense has been much more limited. At the other extreme, although prices of fertilizers have increased only about 55 percent since 1940, increased use has pushed total expenditure on this item up substantially more than the price change.

FARM INPUTS PER UNIT OF OUTPUT



Source: U. S. Department of Agriculture.

## Outlook for Fiscal 1957

(Continued from page 2)

moderate rate in the third quarter. If it should reach an annual rate of \$2 billion, only a half billion would be removed from stocks by the end of the quarter. This would be only a slight reduction from current holdings of \$85 billion, not nearly enough to complete an adjustment. Liquidation must be more drastic and prolonged for a longer period. The decline will therefore continue into the fourth quarter.

## Big Question Mark

The big question mark about the outlook concerns the movement of plant and equipment in the second half of the year. If capital outlays can continue up sufficiently to offset the decline in inventories, hopes of an early recovery would indeed be justified.

The popular way of thinking about this question is in terms of surveys of business plans for investment. The latest Commerce-SEC survey indicates that investment expenditures will continue a steady uptrend through the third quarter. The McGraw-Hill survey indicated an even stronger advance during the remainder of the year. It is conceded that it may not be possible to carry through the plans completely, because of materials bottlenecks and tight money, but not that there is any lack of inclination to do everything possible.

It seems unlikely that the advance in plant and equipment expenditures, even with some help from rising government expenditures, will be sufficient to offset completely the reversal in inventories. But if the strong survey projections are realized, the decline would again be very minor, as in 1949 and 1954.

The alternative approach to this problem lies in the analysis of the relationships revealed by past experience. The usual pattern during business cycles is for investment to turn down with a decline in activity, lagging somewhat at the turn. The mechanism of the cycle tends to bring about a downturn even if activity does not definitely turn down, but merely stops going up. Growth is needed to sustain the rate of investment, because the creation of capacity is cumulative. Without growth, investment has to drop back to the level of replacement.

The results obtained in fiscal year 1957 may therefore be important in testing the validity of both surveys and investment theories. The latest surveys were both taken at the end of the first quarter, when business optimism was at a peak. The real question is not what can be done but whether business will still want to do so much after the situation changes. Investment policy is sure to change, at least to some extent, when it appears that needs are different from what had been anticipated. Only scattered instances of facilities plans being canceled have yet been reported. The possibility that cancellations will increase in the fall is not eliminated by optimism in the spring.

It appears likely, therefore, that the recession of 1956 will go ahead on schedule, with the fourth quarter a low rather than a high. The decline promised to be moderate in any case. Continued strength in capital expenditures would make it mild indeed.

In the first half of 1957, some recovery is in prospect. However, the apparent lack of driving force in any sector suggests that the recovery also will be moderate. The real danger, therefore, lies not in anything that will happen in fiscal 1957 but in what lies beyond. Failure to progress to new highs in 1957 would turn investment downward, and then the over-all decline would be resumed.

VLB



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### State Tax Collections

In the past five years tax collections by the 48 states have increased by almost one-half, from \$7.9 billion to \$11.6 billion. Every state participated in the advance, although the individual gains ranged from a low of 6.6 percent in South Dakota to 89.0 percent in Georgia.

Six taxes accounted for about three-fourths of all collections, according to the Tax Foundation report *State Tax Rates and Collections, 1950 and 1955*. In order of importance these are the general sales and use tax, the motor fuel tax, the motor vehicle and operator's license fees, the net income tax, the tax on sales of alcoholic beverages, and the tax on tobacco sales. Revenues from the first three advanced more rapidly than the total, whereas the last three gained at a slower rate.

Only 15 states use all six of the major revenue sources. All 48 impose the motor fuel sales tax, the alcoholic beverage tax, and the motor vehicle and operator's license fees to some degree, but only 28 have a general sales or use tax, 35 have an income tax, and 40 have a tobacco sales tax. Half of the states have both a sales and an income tax.

### New Unemployment Report

A new source of data, the *Monthly Report on the Characteristics of the Insured Unemployed*, was introduced by the United States Department of Labor in May. The information is based on a 1-percent sample of all persons applying for unemployment benefits through the state unemployment security agencies, including persons under the state programs, the program for Federal civilian workers, and veterans of the Korean war. Data are provided on unemployment by industry, occupation, age, sex, and marital status, as well as by length of unemployment.

The first report surveys conditions in February, 1956. Unskilled workers were much more numerous among the ranks of the unemployed than in the labor force as a whole, whereas for clerical and sales workers the opposite was true. About three-fourths of the unemployed were men, partly because of the high rates of unemployment in construction and auto manufacturing. A larger proportion of older workers were jobless and had been for longer periods than had younger workers.

### Gardening Tools Deluxe

The home gardener can keep his garden in good order using a minimum of effort with the new electric hoe manufactured by the W. R. Brown Corporation, 2701 North Normandy Avenue, Chicago 35. Vibrating prongs loosen the earth without requiring the operator to bend, dig, push, and pull. The materials used in the hoe are corrosion resistant and highly durable.

Another aid to the gardener is a "Rakaid," an attachment to clean the tines of an ordinary rake. The aid can be operated by turning the rake over and pressing a spring on the back which forces a set of teeth through the tines of the rake, pulling out leaves and other debris. The attachment is manufactured by Bonine and Company, 1408 Rollins Road, Toledo 12. It is priced at \$1.69.

Rake and hoe are combined in another garden tool, the "Dandi-Ho-Rake," made by the Dandy Products Cor-

poration, Oshkosh, Wisconsin. Weighing only two pounds, the tool can be easily converted into a hoe, a weed digger, or a rake varying from 6 to 13½ inches in width, merely by pressing a button and pulling a trigger.

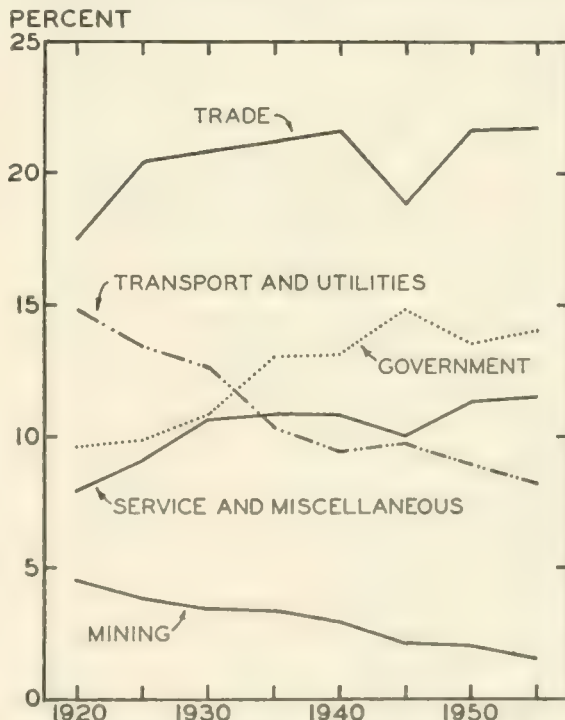
### Employment Trends

Although nonfarm employment has almost doubled in the past thirty-five years, movements among its components have been significantly diverse. They reflect a steady shift from the goods-producing industries to the service groups.

Employment trends in selected sectors of the economy since 1920 are pictured in the accompanying chart. Mining and transportation and utilities have accounted for less and less of total nonfarm employment, as technological improvement has increased labor efficiency. Employment in mining has even declined in absolute numbers, primarily because of declines in the coal industry. The proportions employed in government and the service and miscellaneous group, on the other hand, have increased markedly, as these segments have become more important in the economy. Except for a sharp setback during the war when consumer goods were in short supply, wholesale and retail trade has shown a slight tendency to increase its share of employment totals.

The two world wars were the major factors behind some changes. In both wars construction was forced back to 3 percent and manufacturing rose to 39 percent, whereas their peacetime levels have been closer to 5 and 33 percent respectively. Finance, insurance, and real estate employment has remained at about 4 percent of the total throughout the period, except during the depression when it did not fall with the total, thus raising its relative position.

CHANGING PATTERN OF EMPLOYMENT, 1920-55



Source: *Monthly Labor Review*, March, 1956.

# HAS CONGRESS SOLVED THE FARM PROBLEM?

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Congress passed and the President signed in May a major farm bill—the Soil Bank Act. The primary purpose of this act is to raise farm income by restricting production to reduce supplies and raise prices of farm products. In this way, it is hoped to cope with the rapidly increasing farm output of recent years, an increase which, despite the declining farm labor force, has outstripped that of population (Chart 1). The act authorizes the expenditure of \$1.2 billion a year to encourage farmers to take land out of crop production.

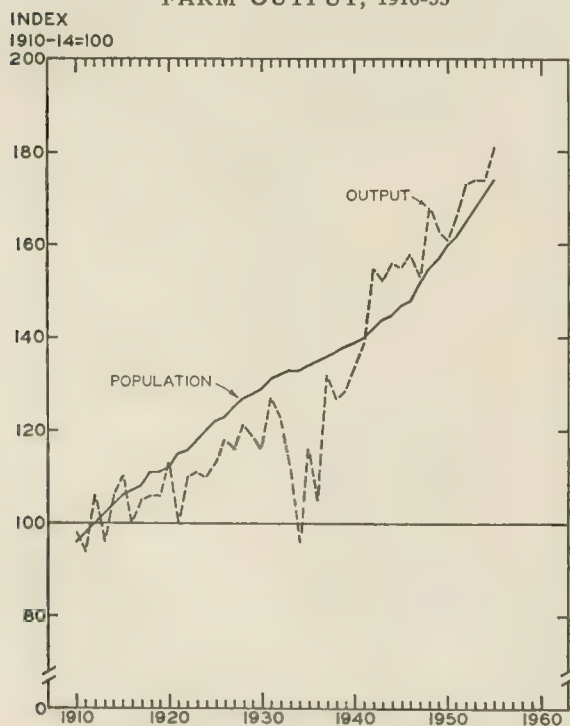
## Provisions of the Act

The soil bank program applies to corn as follows: Each farm is given a “corn base acreage,” which is an equitable share of the national corn base acreage set in the law. To participate a farmer plants only 85 percent of his base acreage to corn and puts the remaining 15 percent in the bank.

The land in the bank may be left unplanted, or if planted to a crop it must be clipped or plowed under. Any farmer who participates will be compensated at a rate of 90 cents times the normal crop production (in bushels) of the land held out of production. The average yield of corn in Illinois is 56 bushels per acre, so average payments are expected to be 90 cents times 56, or \$50.40 an acre. The participating farmer will receive one other important benefit—the privilege of getting price support at \$1.50 a bushel for the corn that he produces.

The act provides similar programs for wheat, cotton, peanuts, rice, and tobacco. It authorizes annual expenditures for the individual crops as follows: corn, \$300 million; wheat, \$375 million; cotton, \$300 million; peanuts, \$7 million; rice, \$23 million; and tobacco, \$45 million.

CHART 1. U. S. POPULATION AND FARM OUTPUT, 1910-55



Source: *Agricultural Outlook Charts*, 1956, p. 11.

The combined soil bank program for these six crops is called the “Acreage Reserve Program.” It is being carried out under annual contracts between individual farmers and the Secretary of Agriculture.

A second part of the Soil Bank Act provides for a “Conservation Reserve Program.” Contracts under this program are for not less than three years. Under these contracts the farmer agrees to take specific cropland out of production and to establish thereon grass, trees, or other cover crops, water storage facilities, or wildlife refuges, or to keep the land idle, or to devote it to soil-conserving crops. The farmer also agrees not to harvest or graze any of the acreage under contract.

The Secretary is authorized to pay a fair share of the cost of establishing the conservation use and an annual rental on this land. The act authorizes annual expenditures of \$450 million for this program.

## Direct Effects

Can the soil bank program add directly to farm income? The act authorizes payments to farmers of \$1.2 billion a year. This amount is equal to only 4 percent of the gross receipts from farm marketings in 1955. Furthermore, in order to qualify for payments most farmers will have to reduce their output and sales of farm products by nearly as much as they will receive from soil bank payments. Thus the soil bank payments themselves are not likely to add more than 1 percent to gross farm income.

Will the new farm program materially restrict production and thereby reduce surplus stocks and raise farm incomes as intended? History provides considerable information to answer these questions.

## Soil Bank Not New

The name “soil bank” is new in farm legislation, but programs very similar to those authorized in the act were widely used in this country in the 1930's. Soil bank-type programs were first authorized by Congress in the Agricultural Adjustment Act of 1933. In that year \$377 million of “rental and benefit payments” were made to growers of cotton, wheat, and tobacco.

In 1934 payments of \$595 million were made to growers of cotton, wheat, corn, tobacco, sugar beets, sugar cane, and hogs. Then, essentially as now, participating farmers were required to reduce their crop acreages and to lease idle land to the Secretary of Agriculture. Then, as now, participating farmers obtained the privilege of getting price support on their crops.

Participating wheat growers reduced their plantings 15 percent under their base acreages in 1934 and 10 percent in 1935. In 1934 participating corn growers agreed to cut their acreage by 20 percent. In return the government paid them 30 cents a bushel on the estimated normal corn yield on the land held out of production. Acreage in the North Central States was cut 18 percent, as about four-fifths of the farmers joined in the program.

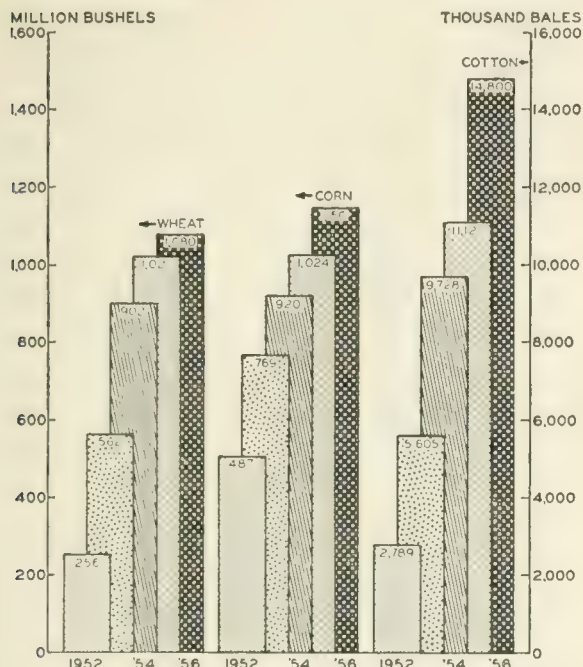
In 1936 the Supreme Court declared that the control of agricultural production was unconstitutional. Eight weeks later Congress passed the Soil Conservation and Domestic Allotment Act. This law provided \$500 million annually for farmers who followed land use practices approved by the Secretary and reduced acreages. The



compensations paid to farmers were called "conservation payments" and "price adjustment payments."

Extreme drouths burned the nation during the years 1934 through 1936. The surpluses disappeared, and interest in production control almost vanished. In 1937, however, came bumper crops. Prices of farm products tumbled, and Congress enacted a new farm bill, the Agricultural Act of 1938. It provided for production control over farm products, mandatory price supports, and "parity payments" to participating farmers.

**CHART 2. STOCKS OF SELECTED FARM PRODUCTS, 1952-56**



Source: *Agricultural Outlook Charts*, 1956, p. 4.

In the meantime deaths and retirements had permitted some changes in the justices of the Supreme Court. When the production control features of the 1938 act were tested before the Court, it held that it is proper for the government to regulate that which it subsidizes.

The Agricultural Act of 1938, with various amendments, remains in effect today. The Soil Bank Act is essentially an amendment to the act of 1938.

Soil bank-type payments to farmers reached a peak of \$709 million in 1939. This sum was equal to \$1.6 billion of today's farm dollars, substantially more than the \$1.2 billion authorized by the Soil Bank Act.

Surpluses accumulated rapidly under the price support and production control programs in the 1930's, except when severe drouths cut yields from 1934 to 1936. Surpluses of corn, wheat, and cotton became almost unmanageable by 1941, but they proved to be quite useful during World War II. Unusually large needs persisted for a few years after World War II and during the war in Korea.

Surpluses accumulated rapidly again beginning with the crops of 1952 (see Chart 2). The excess stocks now on hand are equivalent to one year's output of wheat and cotton and one-third of a crop of corn. They also include substantial amounts of other products. The nation has an investment of over \$8 billion in these excess stocks.

These stocks have been accumulated mostly as a result of price support at 90 percent of parity and in spite of

production control programs that have been developed in 27 years of legislative experience.

## The Corn Belt

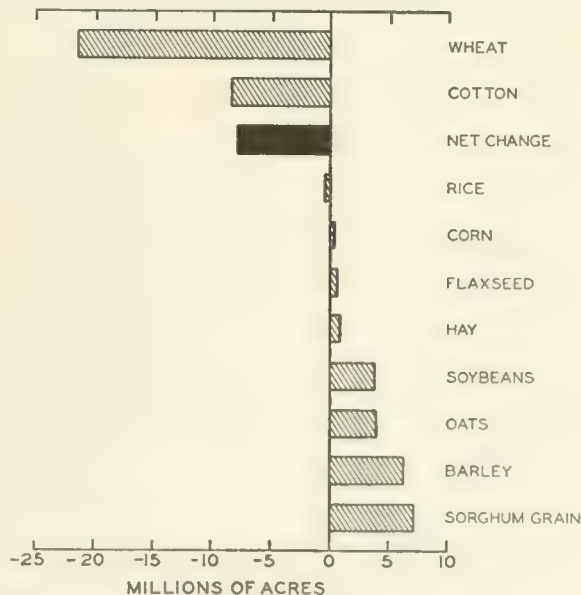
The farm programs of the past have favored other areas at the expense of farmers in the Corn Belt. In important instances producers in other nations have inadvertently been favored at the expense of farmers in this country. For example, as a result of high price supports we have lost very important export markets. Before price supports for cotton were begun in 1930, this country had export markets for seven to ten million bales annually, the product of 26 million acres. Now exports are less than two million bales, the product of only three million acres. Thus, prices were held up while growers in other countries took over the markets.

From 1953 to 1955 alone, 30 million acres were taken out of cotton and wheat as a result of acreage restrictions associated with high price supports. Most of this land, over 22 million acres, an area equivalent to the State of Illinois, was planted to feed crops, including soybeans, as is shown in Chart 3. Most of the feed produced on these acres is being converted into meat and eggs. The result is that the Corn Belt is suffering more from depressed prices than is any other area in the nation.

Corn Belt farmers receive most of their income from the sale of hogs, cattle, and corn. As of May 15 the price of hogs was equal to only 72 percent of parity; cattle, 71 percent; and corn, 79 percent. At the same time leading products of other areas were selling for prices that were much higher on the parity scale. The price of wheat was 83 percent of parity; cotton, 90 percent; milk, 91 percent; and tobacco, 104 percent.

If the soil bank program is to bring any important benefits to farmers, especially those of the Corn Belt, these benefits seem likely to come indirectly. They seem likely to come only if the soil bank program leads farmers eventually to place less dependence on high price supports and acreage restrictions that have caused our loss of large markets in other countries for cotton and wheat and have put cotton and wheat growers into the feed, hog, and cattle business.

**CHART 3. SHIFTS IN CROP ACREAGES, 1953 to 1955**



Source: *Agricultural Outlook Charts*, 1956, p. 22.

# LOCAL ILLINOIS DEVELOPMENTS

Activity slackened in many segments of the Illinois economy during April, partly as a result of an after-Easter letdown. Coal production declined almost 13 percent, as warmer weather cut demand, but remained well above April, 1955. Bank debits were also off sharply, reflecting the decline in retail trade and other commerce.

Construction contract awards, on the other hand, rose rapidly with the favorable building weather, increasing almost 12 percent over the previous month. Nevertheless, they were below the record for the month established a year ago. Business loans at leading Chicago banks also advanced during the month, largely from food processors' borrowing in preparation for using the early crops and metal fabricators' borrowing partly to stockpile materials in the face of promised price advances.

## Agricultural Roundup

The center of Illinois agriculture has moved slightly north during the past three decades. This is the conclusion of a study by Dr. Howard G. Roepke, Assistant Professor of Geography at the University of Illinois. Based on acreage in crops, the agricultural center of the State is in the northeastern corner of Logan County, whereas that based on crop and livestock value is about fifteen miles further north, in the western part of McLean County. According to Dr. Roepke these points are about 10 miles north of the centers of twenty-five years ago. In recent years the center of corn production has moved sharply northward in the State, as have most crops except winter wheat, which shifted slightly to the south.

Insect control measures saved Illinois farmers almost \$14 million during 1955, according to Dr. Harlow B. Mills of the Illinois Natural History Survey. More than half of this resulted from control of the European corn borer.

The Illinois Department of Conservation announced the planting of 370,000 seedling trees on park land taken out of cultivation this spring as part of the soil bank

program. The largest planting was done at the Siloam Springs State Park in Adams and Brown counties, but parks in Coles, Kankakee, Macon, Pope, and Lawrence counties also received trees.

## Around the State

The welcome problem of growth is confronting many of the cities around the State. To meet the demands of expanding populations, schools and other facilities have been built at record rates.

In Kankakee a ring of new industrial plants has blossomed forth; more than \$20 million has been spent on expansion in that area since 1950 and almost that much has been allotted for further additions. To meet the needs of the concomitant influx of population, a school bond issue of \$2.25 million was approved in 1954, and construction is to be completed this year. Hospital facilities have been expanded as well, and the city has constructed a new civic auditorium and several new parking lots.

Quincy is also experiencing growth. A \$4-million shopping center is being built on its rapidly growing eastern edge, and five new parking lots are planned in the downtown area to facilitate handling the crowds of shoppers. A new high school is under construction, with hope of completion by 1958, and plans are to turn the old building into a junior high school. On the industrial front, Motorola is building a new plant, and Gardner-Denver and Electric Wheel and Moormans are making additions.

Mount Carmel has recently annexed about three square miles of land, and the city plans expansion of water and sewer systems to include this area. Two new grade schools and an addition to the high school are being constructed. Part of the growth has come from the city's focal position in relation to Illinois oil fields. Pacific Industries, makers of heavy equipment, and the Snap-On Tools Corporation are also adding to that city's growth with new plants.

Construction has boomed in Carbondale. Southern Illinois University has added six new dormitories and a new agricultural building. Three new grade schools have opened in the past year, and when the new high school opens, its former buildings will be turned into more grade schools. An addition to the hospital is also in process.

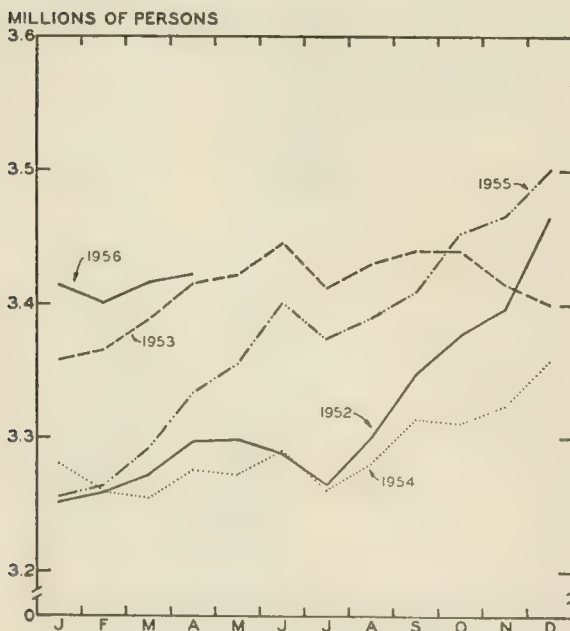
## Employment Records Toppling

Since last October each month has seen a new high attained in Illinois nonfarm employment for that month. The record in December also marked a new all-time peak since that month normally caps the year because of the extra workers needed in trade to meet the Christmas rush.

As may be seen in the accompanying chart, nonagricultural employment in Illinois broke the 3.5-million mark for the first time last December, and has exceeded 3.4 million during each of the first four months of this year. Since December, however, the margin by which previous highs were exceeded has narrowed steadily.

Not all types of nonfarm employment have remained at record levels despite the high totals. In comparison with last year, April employment was down by at least 1,000 in the fields of ordnance and accessories, food and kindred products, and retail trade.

NONFARM EMPLOYMENT, 1952-56



Source: Illinois State Employment Service.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

April, 1956

		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b>		<b>\$38,631<sup>a</sup></b>	<b>1,064,714<sup>a</sup></b>	<b>\$715,533<sup>a</sup></b>		<b>\$14,316<sup>a</sup></b>	<b>\$14,242<sup>a</sup></b>
	Mar., 1956	-22.0	-3.2	+20.0	-5	-10.1	-10.0
Percentage change from	Apr., 1955	+11.6	+9.6	+0.1	-5	+7.1	+0.3
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b>		<b>\$23,727</b>	<b>814,984</b>	<b>\$526,476</b>		<b>\$13,060</b>	<b>\$12,387</b>
	Mar., 1956	-35.1	-3.5	+21.3	-5	-10.6	-10.6
Percentage change from	Apr., 1955	+4.1	+9.7	-0.6	-4	+7.0	+0.0
<b>Aurora</b>		<b>\$2,450</b>	<b>n.a.</b>	<b>\$10,452</b>		<b>\$ 56</b>	<b>\$ 132</b>
	Mar., 1956	+312.5		+13.3	+5	-7.4	-11.1
Percentage change from	Apr., 1955	+189.6		+8.5	-7	+8.9	+6.7
<b>Elgin</b>		<b>\$ 237</b>	<b>n.a.</b>	<b>\$ 7,924</b>		<b>\$ 36</b>	<b>\$ 93</b>
	Mar., 1956	-60.2		+24.0	-4	-5.2	-1.8
Percentage change from	Apr., 1955	-79.2		-0.8	-10	+5.5	-13.5
<b>Joliet</b>		<b>\$ 592</b>	<b>n.a.</b>	<b>\$15,106</b>		<b>\$ 74</b>	<b>\$ 91</b>
	Mar., 1956	-7.5		+20.1	-5	-7.8	-13.6
Percentage change from	Apr., 1955	-26.3		+3.4	-7	+2.7	-5.4
<b>Kankakee</b>		<b>\$ 323</b>	<b>n.a.</b>	<b>\$ 6,461</b>		<b>n.a.</b>	<b>\$ 50</b>
	Mar., 1956	+4.2		+23.0	n.a.		+9.9
Percentage change from	Apr., 1955	+24.7		-8.0			+17.4
<b>Rock Island-Moline</b>		<b>\$1,155</b>	<b>22,790</b>	<b>\$12,368</b>		<b>\$ 86<sup>b</sup></b>	<b>\$ 141</b>
	Mar., 1956	-57.0	-0.8	+20.4	n.a.	-4.2	-11.8
Percentage change from	Apr., 1955	+44.4	+7.3	+4.4		-2.1	-13.4
<b>Rockford</b>		<b>\$2,542</b>	<b>37,612</b>	<b>\$23,709</b>		<b>\$ 166</b>	<b>\$ 231</b>
	Mar., 1956	+72.5	-4.2	+18.4	-15 <sup>c</sup>	-12.2	-5.2
Percentage change from	Apr., 1955	-8.1	+6.7	+11.5	-11 <sup>c</sup>	+11.4	+11.3
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b>		<b>\$ 298</b>	<b>7,971</b>	<b>\$ 6,876</b>		<b>\$ 60</b>	<b>\$ 119</b>
	Mar., 1956	-43.8	-4.5	+20.4	n.a.	-4.6	+13.5
Percentage change from	Apr., 1955	+7.6	+12.2	-1.1		-2.9	+1.5
<b>Champaign-Urbana</b>		<b>\$ 761</b>	<b>10,205</b>	<b>\$ 9,409</b>		<b>\$ 64</b>	<b>\$ 102</b>
	Mar., 1956	+24.8	-2.4	+16.9	n.a.	-2.7	-1.7
Percentage change from	Apr., 1955	+64.7	+12.8	+1.0		+6.9	+0.0
<b>Danville</b>		<b>\$ 497</b>	<b>10,538</b>	<b>\$ 8,143</b>		<b>\$ 53</b>	<b>\$ 65</b>
	Mar., 1956	+255.0	-4.7	+21.3	-4	-4.8	+12.0
Percentage change from	Apr., 1955	+90.4	+16.2	+4.6	+3	+12.3	+20.9
<b>Decatur</b>		<b>\$3,457</b>	<b>31,172</b>	<b>\$14,535</b>		<b>\$ 112</b>	<b>\$ 121</b>
	Mar., 1956	+304.8	-2.1	+23.6	-3 <sup>c</sup>	-8.6	-10.6
Percentage change from	Apr., 1955	+507.6	+16.3	+2.6	-6 <sup>c</sup>	+8.2	+8.9
<b>Galesburg</b>		<b>\$ 439</b>	<b>7,842</b>	<b>\$ 5,480</b>		<b>n.a.</b>	<b>\$ 36</b>
	Mar., 1956	-55.6	-3.2	+13.4	n.a.		+6.9
Percentage change from	Apr., 1955	-56.1	+11.9	-1.7			+1.4
<b>Peoria</b>		<b>\$ 634</b>	<b>49,614<sup>c</sup></b>	<b>\$22,771</b>		<b>\$ 222</b>	<b>\$ 241</b>
	Mar., 1956	-56.9	-0.8	+10.2	-7 <sup>c</sup>	-1.9	-3.5
Percentage change from	Apr., 1955	+1.9	+5.1	+5.8	-8 <sup>c</sup>	+13.1	-2.5
<b>Quincy</b>		<b>\$270</b>	<b>9,232</b>	<b>\$ 6,377</b>		<b>\$ 39</b>	<b>\$ 67</b>
	Mar., 1956	-49.9	+7.8	+11.0	-8	-0.2	+5.7
Percentage change from	Apr., 1955	-55.1	+8.3	-2.0	-24	+5.5	+0.9
<b>Springfield</b>		<b>\$ 298</b>	<b>30,855<sup>c</sup></b>	<b>\$16,984</b>		<b>\$ 110</b>	<b>\$ 236</b>
	Mar., 1956	-63.8	-3.1	+13.1	n.a.	-2.3	-10.6
Percentage change from	Apr., 1955	-52.3	+10.0	-0.6		+11.3	+12.2
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b>		<b>\$ 443</b>	<b>12,522</b>	<b>\$10,799</b>		<b>\$ 140</b>	<b>\$ 55</b>
	Mar., 1956	-5.5	-5.3	+14.5	n.a.	+7.3	-9.8
Percentage change from	Apr., 1955	+92.6	+6.4	-8.4		+14.8	+1.5
<b>Alton</b>		<b>\$ 239</b>	<b>12,749</b>	<b>\$ 6,201</b>		<b>\$ 39</b>	<b>\$ 30</b>
	Mar., 1956	+119.3	-5.1	+13.4	n.a.	-11.6	-13.6
Percentage change from	Apr., 1955	+55.2	+10.8	-5.7		-1.0	+1
<b>Belleville</b>		<b>\$ 269</b>	<b>6,628</b>	<b>\$ 5,463</b>		<b>n.a.</b>	<b>\$ 43</b>
	Mar., 1956	+89.4	-4.8	+10.9	n.a.		-16.6
Percentage change from	Apr., 1955	-33.3	+14.1	-2.8			+11.1

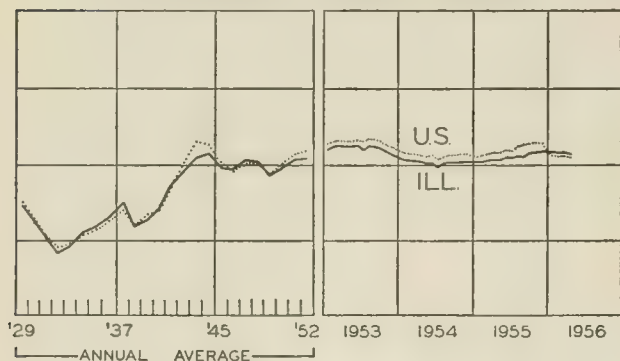
<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.

Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for December, 1955, the most recent available. Comparisons relate to November, 1955, and December, 1954. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

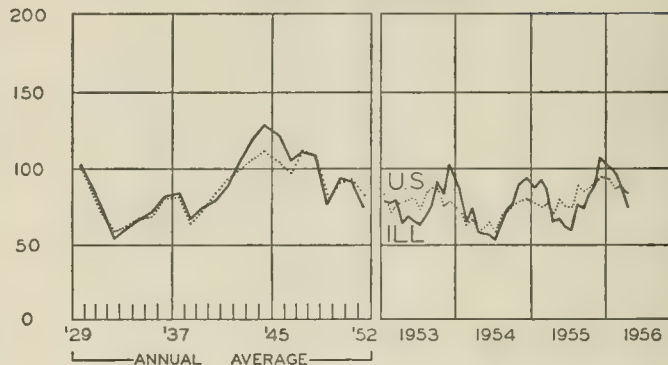
# INDEXES OF BUSINESS ACTIVITY

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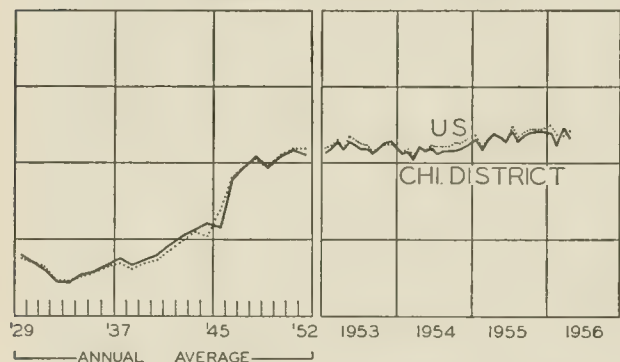
EMPLOYMENT-MANUFACTURING



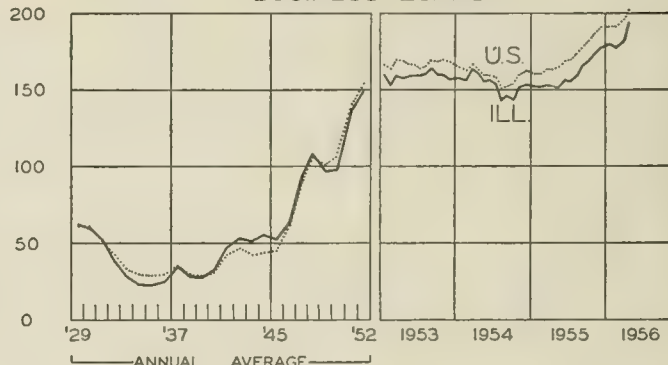
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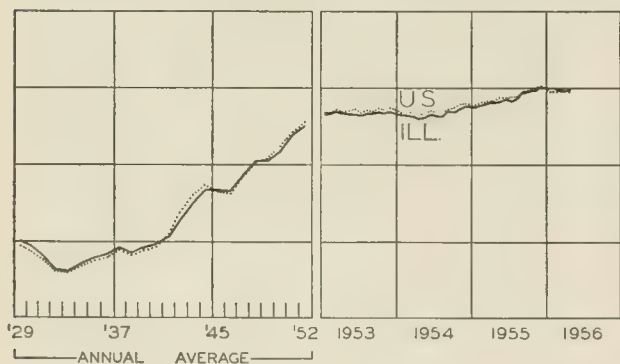
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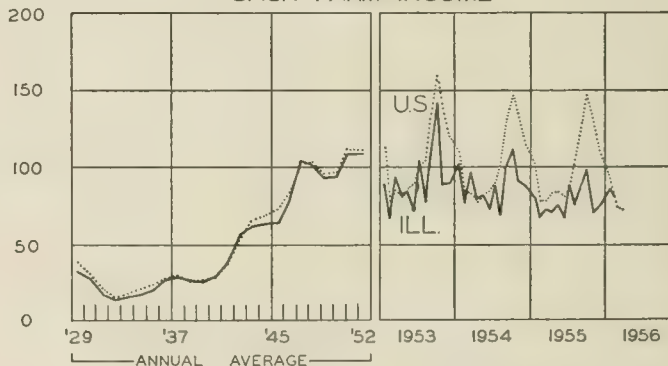
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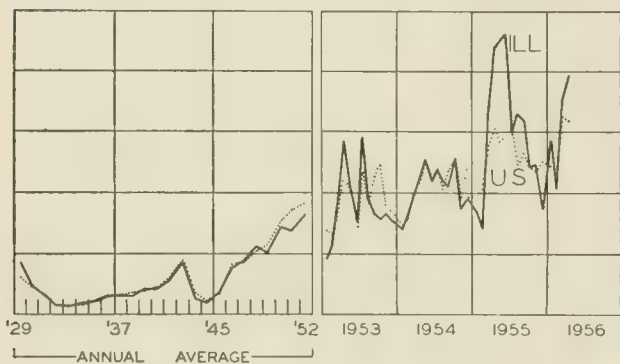
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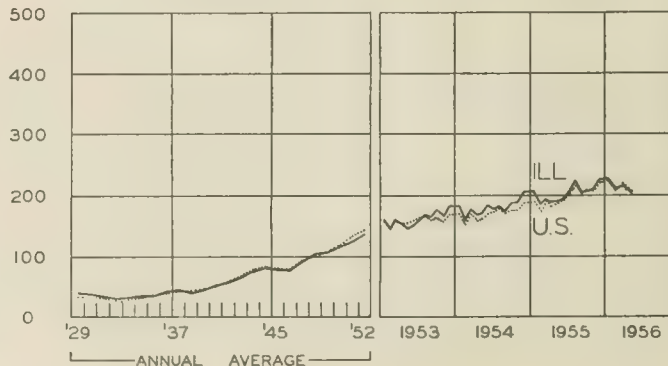
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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## HIGHLIGHTS OF BUSINESS IN JUNE

Onset of the steel strike early in July has interrupted the high, more or less steady rate of production maintained by the economy during the first half of the year. Over much of this period the steel industry had operated at close to 100 percent of capacity (see page 5). Now, with 650,000 workers out, only 10 percent of capacity is available for production. Shortages of steel are not immediately expected since inventories are reported to be high among major steel users, particularly in the appliance and auto fields. Several of the smaller producers who continue in operation have announced price boosts of \$6 to \$10 per ton, and the increases are expected to become industry-wide when the walkout ends.

### Auto Sales Rise Slightly

Auto output continues to lag behind last year's record, with the current rate down about 40 percent. Aided by this lower rate of output, dealers are realizing some success from their efforts to work off inventories before the introduction of new models. Early in May new car stocks totaled 900,000, a high for the date. In May and June sales picked up. At the beginning of July, stocks were down to near 700,000 which, however, was 25,000 in excess of stocks at the same time last year. Continued lower rates of production combined with stepped up sales promotion are expected as the attempt to work down inventories continues.

### Manufacturers' Sales High

Sales by manufacturers in May totaled \$27.8 billion, a record rate and about 6 percent over May, 1955. On a seasonally adjusted basis they were 2 percent above April sales. This increase contrasts with the stability such sales have shown since August of last year. Except for motor vehicles, gains have been widespread among the metal fabricating industries and the principal lines of soft goods.

New orders were received by manufacturers during May at a rate of \$27.7 billion, approximately the same as sales and 4 percent over May of the previous year. After seasonal adjustment, the flow of new orders exceeded the preceding month's by 3 percent. Unfilled orders at the beginning of June rose to \$57.4 billion, or \$9 billion above the year-ago level, though less than a billion over the January total.

The rise in book value of manufacturer's inventories during May was much the same as in April, or about \$600

million on a seasonally adjusted basis. At the end of May the book value of inventories equaled \$48.8 billion, an all-time high and \$5 billion over a year ago. The bulk of this increase has occurred in durables, and a considerable fraction of it is attributable to price rises. It is worth noting that the inventory increases have exceeded the increases in sales by a wide margin, since sales of durable goods in May of this year were a little more than 5 percent above sales in May of the previous year, whereas inventories of these goods rose 16 percent over their level of a year ago.

### Farm Prices Continue Up

The rise in farm prices continued through mid-June, for the sixth consecutive month. They are now 11 percent over their December low, and for the first time in four years, are higher than at the same time the year before. By contrast the prices paid by farmers are 3 percent over their December level and just slightly above their level a year ago. In consequence there has been an easing of the price-cost squeeze, with the mid-June parity ratio of 86 percent the highest in more than a year.

The pattern of the past few years shows that after midyear, as harvests get underway, the prices of farm products have weakened. Expectations are for declines this year also, though more modest ones than the average of 8 percent for the latter half of 1955.

### Retail Sales and Prices Stable

Department store sales in June, seasonally adjusted, edged up slightly from May. Except for February, when they dipped, they have evidenced only minor variations throughout the first six months of 1956. The present rate is, however, some 9 percent above that for June of last year.

Total retail sales in May, the latest reported, were \$16.2 billion. After adjustment for seasonal factors this sum represented a 1-percent rise over April. These sales also have exhibited considerable stability over the past several months, aside from a similar February dip.

Meanwhile consumer prices continue to move within a remarkably narrow range. Though they advanced slightly in May from April, they now stand barely one percentage point above their 1953 level. Throughout the three-year period they have varied between approximately 114 and 115 percent of the 1947-49 average.

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# ILLINOIS BUSINESS REVIEW

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## Technological Race

Many nations have undertaken "all-out" programs of research in atomic energy. These programs may be said to have achieved a fair measure of success. Methods of generating electric power by the fission process are known throughout the world. Control of the fusion process for the same purpose is the goal of current efforts. Although practically no power has been obtained to date, all can feel that they have entered the atomic age.

The great powers have also undertaken "crash" programs in guided missile research. These missiles are complementary to atomic power; their role is to deliver its destructiveness to the heart of enemy territory. They are commonly regarded as "deterrents," maintaining the greatest possible threat of retaliation against aggression. They can best serve to deter if the enemy knows they exist, and despite extreme secrecy, both sides proclaim their existence. So far as can be determined, progress has not been greatly different on either side.

Fears that the Russians may reach technological goals ahead of us are based in large part on the threat of war. This aspect of the situation has been highlighted by Congressional action on military appropriations. Other fears, however, are more general in character. They derive from the possibility that the Russians, or somebody else, might catch up to us in general economic power. In this perspective, we are in a technological race, in which it behooves us to keep ahead of everybody.

### Leading the World in Production

The emphasis in government discussions on specific technical developments relating to atomic weapons and guided missiles lend credence in other countries to the idea that these are the primary determinants of both our foreign policy and our domestic budget. Our response to recent Russian moves toward peace and freer trade also contributes to this idea. Our representatives in the United Nations have characterized those moves as attempts at economic penetration, against which our military and political barriers must be strengthened. The impression created is that we are the ones who seek world domination and might use force to achieve it. Suspicion is thus cast on purely altruistic programs to assist other countries in technical and industrial development.

It is also difficult for foreigners to understand why

the country with an outstanding lead in resources and capacity should display such an urge to be first in everything. They are concerned that we have already gone so far along the road to self-sufficiency. Techniques that displace their exports have the same effect as protectionist measures in disorganizing their economies.

As leaders in atomic energy research, we remain in the forefront of attempts to apply it to nonmilitary uses. Sometimes concern is expressed over reports that Great Britain, or some other country, is making relatively greater progress in building nuclear electric plants. This should be readily understandable. Since needs vary, research and development programs should be pushed more vigorously in some areas than in others. At present costs, nuclear electric power is uneconomic in this country, but entirely competitive in many other parts of the world. It is not that Britain can do better than we, but rather that we have already done better, by producing cheaper power by other means.

It is a mistake, furthermore, to think that a whole economy can be transformed by use of advanced techniques in a few special fields. The peoples of other lands cannot be made productive merely by giving them power in the form of atomic energy. The development of skills and the application of advanced techniques throughout an economy as a whole is quite a different matter. It can be accomplished only slowly, by processes of education, retraining, and capital accumulation. Innovations, in our meaning of the term, may be of little significance to those processes. To the extent that advanced accomplishments in special fields of military importance may be achieved by unduly heavy allocations of resources, they may actually retard, rather than enhance, over-all progress.

This year, capital expenditures in this country are at an all-time high. There has been a concentration of efforts to expand and improve. Under these conditions, the gap between our capacity to produce and almost everybody else's is being widened, not reduced. The only real hope for a peaceful, prosperous future lies in a situation where other peoples are making progress, too. Our best policy, therefore, is to help them by exchanging know-how and providing other assistance for their economic development.

Even if concern centers solely on the progress of the Soviet Bloc, there is no immediate threat to make us jittery. Our industrial productivity has been estimated at 2½ times that of the Soviet Union. A temporarily higher rate of progress there does not necessarily narrow the gap in real income. Thus, 5 percent of 40 is only 2, or a third less than 3 percent of 100; an increase of 150 percent from 40 as against 75 percent from 100 widens the gap from 60 to 75. As a further qualification on any comparison of this kind, it remains to be seen whether they can consistently maintain recent high rates of progress as their economy matures. In time, of course, a significant advantage in rates of increase would enable them to catch up; but the significant problems for us now are not those that might have to be faced a generation or more in the future.

### The Source of Difficulty

If we really believe our kind of economy represents the best organization of effort in the interest of progress, it would seem that we should neither fear nor envy the progress made by others. The source of difficulty with

(Continued on page 6)



## **HOME LAUNDRY EQUIPMENT**

Although the art of washing clothes is as old as civilization, hand operations, with wash tubs substituting for natural bodies of water, continued into the twentieth century. The mechanical devices that have reduced the drudgery of hand-washing did not come into general popularity in this country until about the time of World War I and are still unknown in many parts of the world.

### **Development**

An early attempt toward improving laundering methods was made in 1792 by a British clockmaker who used the principle of the power washing machine in a primitive form of laundering equipment. A stick with a tin pan attached was plunged up and down in a tub that revolved on a hand-propelled axis, resulting in a vacuum-cup action. The first power washing machine was developed in California in 1851, during the gold rush. A clumsy affair, it was hitched to a ten-horsepower donkey engine purchased from a ship's captain and was entirely unsuited for individual home use.

In 1906 the first all-electric home washing machine was designed in Chicago by the Hurley Machine Company. Though awkward and clumsy in appearance, it worked very well and was acquired and used by Thomas A. Edison. Subsequent progress in the development of home laundry equipment was closely linked with the availability of electric power, and consequently early types of home laundry equipment could not be widely adopted.

Maytag, in 1914, introduced the first home washer powered by a gasoline motor, designed to function where electricity was not available. The next major home laundry appliance to be produced was the automatic electric ironer, which was designed in 1924 by Sperlich and Uhlig, forerunner of Ironrite, Incorporated. In 1933 J. Ross Moore created the electric clothes dryer, the first automatic version of which was designed six years later by Hamilton Manufacturing Company. However, the credit for introducing today's largest-selling home laundry appliance goes to Bendix, which, in 1937, produced the first automatic washing machine.

### **The Industry**

Last year was the biggest year in the history of the home laundry business. More than 5.9 million home laundry appliances were sold, as compared with 4.3 million in 1947, according to *Electrical Merchandising*. The value of sales more than doubled over this period, rising from \$630 million to \$1.4 billion. The term "home laundry equipment," as used by the home appliance industry, refers only to such products as automatic and conventional washers, electric and gas dryers, and ironing machines which are used by domestic homemakers.

There were approximately 4.4 million washers, 1.5 million dryers, and 88,600 ironers sold in 1955. Of these three products, the clothes dryer has produced the biggest gain percentagewise of all electrical appliances sold during the past year (54 percent). Many owners of conven-

tional wringer- and spinner-type washers have shown a tendency to purchase a dryer (average retail price, \$210) before investing in a new automatic washer (\$269), and many distributors now sell one dryer for every automatic washer sold. However, automatic washers still outsell conventional washers three to one.

There are currently only 30 firms producing home laundry equipment as compared with 65 in 1947, but the number employed by this industry has remained fairly constant during this period, near the level of the 27,000 workers currently employed. The demands by retailers and consumers for a single complete line of home appliance products instead of several different brand names have caused many firms to merge with the result that most home laundry appliance production is confined to ten major producers.

### **Growth in Illinois**

Illinois has played an important role in the development of the home laundry business. Not only are several of the nation's leading firms located within the State, but many of the forerunners of our modern home laundry equipment were developed here as well.

The world's first electric washing machine was built in a Chicago loft building by Edward N. Hurley in 1906, and formed the starting point for the present-day Thor Corporation. This company later introduced the first combination clothes and dishwashing machine and the foldaway electric ironer.

In 1909, Silas and A. W. Altorfer designed the first ABC power washer at Roanoke, Illinois, and laid the foundation for Altorfer Brothers Company of Peoria, now part of the Nash-Kelvinator Corporation. It was ABC which developed the first powered wringer and which shipped both the first carload and the first solid trainload of power washers ever to be shipped over the rails of American railroads.

Hotpoint, originator of our present-day electric iron, developed and introduced a new type rotary ironer and electric clothes dryer during the 1930's. In 1950, it introduced the world's first "moistureless" clothes dryer. During 1955, Hotpoint's Chicago home laundry plant passed the 900,000 mark in production of clothes washers.

Other Illinois firms which produce various home laundry equipment are the Norge Division, Borg-Warner Corporation, Herrin; Chicago Electric Division, Silex Company, Summit; Conlon-Moore Corporation, Joliet and Cicero; Naxon Utilities Corporation, Skokie; Speed Queen Corporation, Algonquin; Hummer, Division of Montgomery Ward, Springfield; and Rheem Manufacturing Company and Cribbon and Sexton Company, both of Chicago.

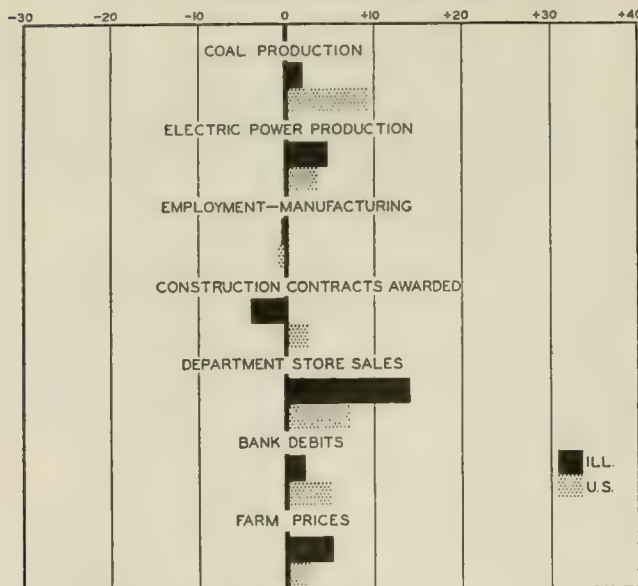
Illinois has by far the largest number of companies producing home laundry equipment in the nation. Although actual production figures are closely guarded secrets, it is reasonable to assume that total output of home laundry equipment in Illinois ranks the State as one of the top producers in the nation.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes April, 1956, to May, 1956



## ILLINOIS BUSINESS INDEXES

Item	May 1956 (1947-49 = 100)	Percentage Change from	
		April 1956	May 1955
Electric power <sup>1</sup>	211.4	+4.7	+12.0
Coal production <sup>2</sup>	77.2	+1.8	+15.6
Employment—manufacturing <sup>3</sup>	107.0	-0.5	+3.1
Weekly earnings—manufacturing <sup>3</sup>	148.3 <sup>a</sup>	-0.4	+5.5
Dept. store sales in Chicago <sup>4</sup>	116.0 <sup>b</sup>	+0.9	+3.6
Consumer prices in Chicago <sup>5</sup>	118.6	+0.4	+1.2
Construction contracts awarded <sup>6</sup>	379.4	-4.0	-16.3
Bank debits <sup>7</sup>	167.0	+2.0	+3.6
Farm prices <sup>8</sup>	82.0	+5.1	+1.2
Life insurance sales (ordinary) <sup>9</sup>	220.0	-0.4	+14.0
Petroleum production <sup>10</sup>	130.4	+2.6	+1.6

## UNITED STATES MONTHLY INDEXES

Item	May 1956	Percentage Change from	
		April 1956	May 1955
	Annual rate in billion \$		
Personal income <sup>1</sup> .....	n.a.	.....	.....
Manufacturing <sup>1</sup> .....			
Sales.....	332.4 <sup>a</sup>	+ 1.8	+15.4
Inventories.....	48.6 <sup>a, b</sup>	+ 1.3	+ 8.5
New construction activity <sup>1</sup> .....			
Private residential.....	15.1	+ 4.8	-11.7
Private nonresidential.....	14.9	+ 6.8	+ 8.7
Total public.....	13.9	+17.3	+ 4.8
Foreign trade <sup>1</sup> .....			
Merchandise exports.....	18.1 <sup>c</sup>	- 4.4	+19.2
Merchandise imports.....	11.9 <sup>c</sup>	-10.1	+13.7
Excess of exports.....	6.2 <sup>c</sup>	+ 8.7	+31.3
Consumer credit outstanding <sup>2</sup> .....			
Total credit.....	36.6 <sup>b</sup>	+ 1.7	+15.9
Installment credit.....	28.6 <sup>b</sup>	+ 1.2	+18.4
Business loans <sup>2</sup> .....	27.8 <sup>b</sup>	- 0.2	+22.7
Cash farm income <sup>3</sup> .....	n.a.		
	Indexes (1947-49 =100)		
Industrial production <sup>2</sup> .....			
Combined index.....	142 <sup>a</sup>	- 0.7	+ 2.9
Durable manufactures.....	158 <sup>a</sup>	- 1.2	+ 3.3
Nondurable manufactures.....	129 <sup>a</sup>	0.0	+ 1.6
Minerals.....	129 <sup>a</sup>	0.0	+ 6.6
Manufacturing employment <sup>4</sup> .....			
Production workers.....	107 <sup>a</sup>	- 0.7	+ 0.9
Factory worker earnings <sup>4</sup> .....			
Average hours worked.....	100	- 0.7	- 2.0
Average hourly earnings.....	147	0.0	+ 4.8
Average weekly earnings.....	148	- 0.7	+ 2.8
Construction contracts awarded <sup>5</sup> .....	324	+ 2.4	+13.5
Department store sales <sup>2</sup> .....	123 <sup>a</sup>	+ 0.8	+ 5.1
Consumers' price index <sup>4</sup> .....	115	+ 0.4	+ 1.1
Wholesale prices <sup>4</sup> .....			
All commodities.....	114	+ 0.6	+ 4.0
Farm products.....	91	+ 3.3	- 0.3
Foods.....	102	+ 2.0	+ 0.3
Other.....	122	+ 0.1	+ 5.4
Farm prices <sup>3</sup> .....			
Received by farmers.....	89	+ 2.3	0.0
Paid by farmers.....	114	0.0	+ 0.9
Parity ratio.....	85 <sup>d</sup>	+ 2.4	- 1.2

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.

<sup>a</sup> April data; comparisons relate to March, 1956, and April, 1955. <sup>b</sup> Seasonally adjusted.

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp. <sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for April, 1956; comparisons relate to March, 1956, and April, 1955. <sup>d</sup> Based on official indexes, 1910-14 = 100. n.a. Not available.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1956					1955
	June 23	June 16	June 9	June 2	May 26	June 25
Production:						
Bituminous coal (daily avg.)	1,715	1,713	1,642	1,585	1,687	1,703
Electric power by utilities	11,478	11,425	10,951	10,598	10,927	10,226
Motor vehicles (Wards)	127	121	127	95	130	181
Petroleum (daily avg.)	7,056	7,066	6,998	7,037	7,071	6,637
Steel	133	133	138	138	139	133
Freight carloadings	799	801	787	719	788	709
Department store sales	109	131	124	109	117	103
Commodity prices, wholesale:						
All commodities	114.0	114.2	114.2	114.3	114.4	110.3 <sup>a</sup>
Other than farm products and foods	121.4	121.4	121.4	121.6	121.7	115.6 <sup>a</sup>
22 commodities	87.8	89.0	88.2	88.3	90.4	90.8
Finance:						
Business loans	28,916	28,258	27,971	27,784	28,093	23,433
Failures, industrial and commercial	245	286	257	238	273	205

Source: Survey of Current Business, Weekly Supplements.

<sup>a</sup> Monthly index for June, 1955.



# RECENT ECONOMIC CHANGES

## Credit Expansion

Consumers added over \$600 million to their outstanding debt in May, the biggest increase so far this year though a third under last May's change. The advance carried total consumer debt outstanding to \$36.6 billion, \$5 billion over May, 1955.

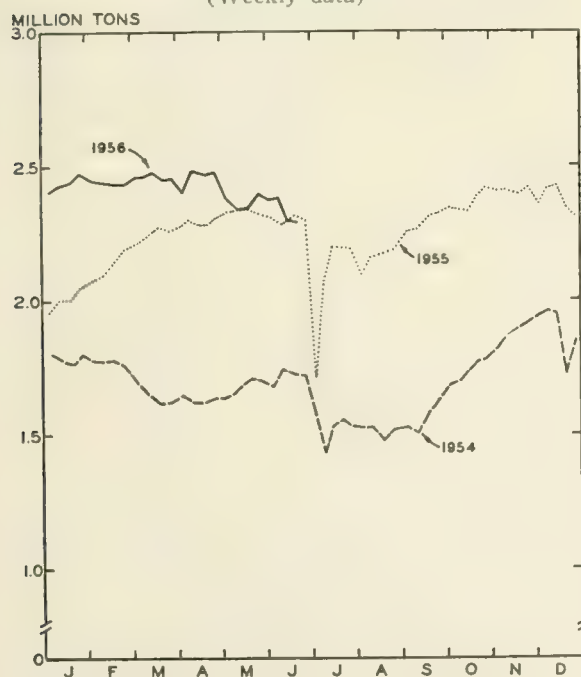
Installment debt accounted for \$330 million of the May advance with over half of this concentrated in automobile paper. In May of last year installment credit rose by \$640 million; auto paper accounted for \$500 million of that increase. The change in installment credit this year has been considerably more moderate than in 1955. Extensions have averaged about 9 percent lower than last year and repayments 9 percent higher. For the five months ended May 31 the change in outstanding installment debt was limited to \$700 million, less than half that of the January-May period of 1955.

## Pre-Strike Steel Production

Steel production declined in May and June, after seven months of full-capacity operations from October through April. In May, output dipped to 96 percent of capacity and by late June, on the eve of the steel strike, it was down to 93 percent of capacity. Thus, as shown by the chart, the wide margin of output over 1955 levels was eliminated.

The decline in production reflects cutbacks in demand for important steel consumers' output, notably that of the auto, housing, and consumer appliance industries, and additionally, mounting inventories of steel held by consuming industries. Industry sources estimate at least a tenth of steel output was going into inventory for several months prior to the strike, as buyers hedged against shortages or anticipated price increases.

STEEL PRODUCTION  
(Weekly data)



Source: American Iron and Steel Institute.

## Exports, Imports at Record

With domestic demand from some important sectors faltering, record-high foreign demand for American goods and services was influential in supporting United States output in the first quarter. After adjustment for seasonal changes, exports were up more than 5 percent from the fourth quarter and 23 percent from the first quarter of 1955 to \$5.4 billion. Major factors in the advance were increased shipments of automobiles and machinery and lesser increases in grain and food products. Canada and Latin America accounted for the bulk of the increase in our exports.

Imports of goods and services also rose to a record level of \$4.9 billion, seasonally adjusted, a gain of about 2 percent over the fourth quarter. Most of the increase was in service expenditures as merchandise imports were little changed from the fourth quarter.

Despite our export surplus on goods and services, foreign nations added about \$600 million to their accumulated gold and dollar holdings, since total payments to foreigners, including those for goods and services, net government grants and loans, net outflow of United States private capital, and private remittances and pension funds, rose by 5 percent to \$6.1 billion. This increase in reserves compared with \$215 million in the preceding quarter, and \$190 million in the first quarter a year ago.

## Business Population Rises in 1955

Booming economic conditions in 1955 attracted more new firms into the business population than in any year since 1948. At the beginning of 1956, 4.3 million firms were in operation—60,000 more than at the beginning of 1955. In both 1953 and 1954 virtually no change took place in the business population of 4.2 million firms. New businesses founded in 1955 totaled 374,000 compared with about 340,000 in both 1953 and 1954, and the number of businesses that were discontinued totaled 311,000, down from about 330,000 in the two preceding years.

In manufacturing, an exodus of firms continued; the number of firms dropped to 308,000 at the beginning of this year compared with 311,000 at the beginning of 1955 and 327,000 in 1952, the postwar peak. All other industries, however, recorded increased numbers of firms in 1955. The largest relative increase occurred in the contract construction group, up 6.5 percent during the year.

## Income Distribution Shifts Upward

Family income in the United States climbed \$15 billion last year to \$288 billion. Divided among our 52 million families, average income was at a record \$5,520, a gain of 3 percent over 1954. The advance contrasts with a moderate reduction between 1953 and 1954.

Along with the rise in average income last year, there was a general upward movement of families on the income scale. The Department of Commerce estimates that 23 million families, 45 percent, had incomes over \$5,000 last year. In total, this group received \$204 billion. Income in this range was 9 percent above 1953 and 1954 when 21 million families had incomes in excess of \$5,000, totaling \$188 billion. The shift of families into higher income brackets has continued almost without interruption since World War II. Since 1947 both the number of families with incomes over \$5,000 and total income in this range have about doubled.

## Security Offerings Continue High

Corporations offered \$2.2 billion of new securities for cash sale in the first quarter of 1956. This compares with \$2.9 billion offered in the previous quarter and \$2.5 billion in the first quarter of 1955. The decline from the opening quarter of 1955 centered entirely on a reduced volume of new common stock issues, which amounted to less than half the year-ago volume. Issues of preferred stock and bonds and notes were at about the same level as in the first three months of last year.

Manufacturing companies accounted for the largest share of first quarter offerings with about \$700 million, nearly a third of the total. Financial and real estate companies offered \$600 million, and electric and gas utilities \$500 million.

Fifty percent of the proceeds of the new issues was earmarked for investment in plant and equipment, 38 percent for working capital requirements, 5 percent for refunding outstanding issues, and the remainder for miscellaneous uses. The major shift from a year ago was a relative rise in new money sought for working capital and a reduction in refunding activity.

## Business Investment Programs

The most important element of strength in the current economic picture is business investment in plant and equipment. These outlays have helped offset declines in expenditures for residential construction and consumer durables and have accounted for much of the moderate advance that has occurred in gross national product since the third quarter of 1955.

In the first quarter of 1956, plant and equipment expenditures rose to a seasonally adjusted annual rate of \$32.8 billion, up 28 percent from 1955's first quarter low. The Department of Commerce-Securities and Exchange Commission's first quarter survey indicates expenditures will rise to \$34.8 billion in the second quarter and \$36.7 billion in the third. If realized, this volume of outlays

will top the third quarter of 1955 by about a fourth. As shown by the accompanying chart the biggest part of the anticipated advance will center in manufacturing and railroad investment. Both of these are industries in which declines were sharpest during the 1954 recession.

Railroads anticipate outlays about 70 percent higher in the first three quarters of 1956 than in the corresponding period of last year. Manufacturing concerns expect investment to run close to 40 percent over the first nine months of 1955, with manufacturers of motor vehicles and other transportation equipment, stone, clay, and glass products, paper, and primary metals planning increases in excess of 50 percent. In other industries advances will be smaller. Mining, public utility, and commercial, finance, and trade firms' outlays are expected to rise 15 to 30 percent over the first nine months of 1955.

## Technological Race

(Continued from page 2)

this view lies in the fact that there are recessions which from time to time interrupt consistent progress. The danger lies not in periods when we are forging ahead but in possible periods of depression. Then, we might move backward while others continue to forge ahead.

Our concern, in other words, should be with maintaining the conditions for stable progress instead of racing ahead in the frenzy of the boom to best all others. Unfortunately, we have already achieved a pace that in all probability cannot be maintained indefinitely. Some letdown is almost inevitable, and we have not yet perfected the means of dealing with declines. Our situation will only be worsened to the extent that we do not face the situation calmly and plan remedies for any setback that might be experienced.

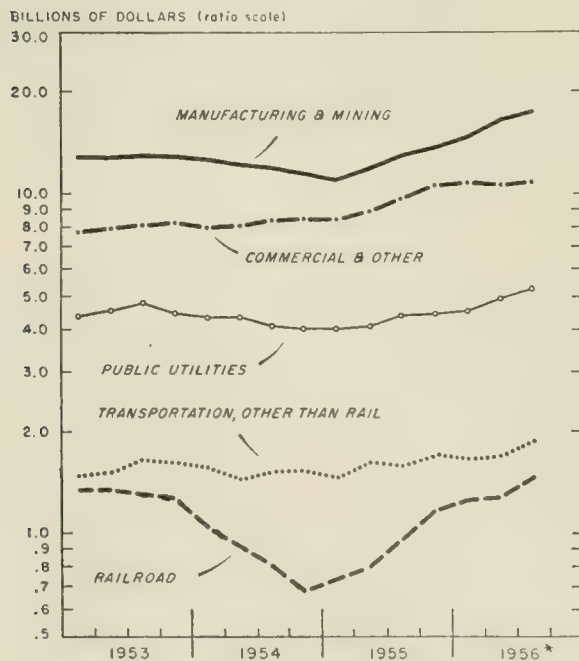
Eventually, the problem will not be much different on the other side. Increasing instability will have to be faced by other economies as they accumulate industrial capacity and stocks of durable goods. Their problems of stabilization will become more acute the nearer they come to our standards of living and our capacity to produce. At this moment, they have a decided advantage, in that they lack so much in almost all kinds of consumers' goods that opportunities to shift resources from one line of production to another are much greater than ours. In this sense, the next depression will not be a fair test of ultimate potentialities.

Practically all countries are committed in one way or another to avoiding or minimizing depressions. Some of the other Western nations are more strongly committed than we to the maintenance of full employment. Many in this country are optimistic about our ability to deal with future declines. This attitude is perhaps somewhat unrealistic in its appraisal of the magnitude of potential declines and of the effectiveness of limited measures for dealing with them. What can be done, here as well as abroad, remains to be seen.

Existing conditions and methods of attacking problems differ greatly, but practically all countries are working toward similar goals. Progress will no doubt continue to be variable on both sides of the conflict of ideologies that divides the world. Barring catastrophe, substantial gains may be expected, not only for the strong competitors, but for the underdeveloped areas. The hope for mankind rests on willingness to hold to peaceful competition as the means of demonstrating which is the better way to a solution.

VLB

**CAPITAL EXPENDITURES**  
(Seasonally adjusted annual rates)



\* Second and third quarters anticipated.

Source: Survey of Current Business, June, 1956.



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Employment by Municipal Governments

Employment by city governments in the United States rose to 1,436,000 in October, 1955, 1 percent above the previous October, according to a recent report by the Bureau of the Census. About 85 percent of these employees were full-time workers. Of the part-time workers, a large portion were volunteer firemen and elected officials of smaller political units.

The larger the city, the greater is the proportion of municipal employees to total population. In cities with population over one million, for example, about 2 percent were employed by the city government whereas in cities of under 5,000 persons there were only 0.6 percent on the city payroll last October (full-time equivalent).

Not all types of employment reacted in the same way to increasing city size. Those for police protection and sanitation increased steadily with rising population whereas highway workers showed the opposite trend. Employment for recreation and for fire protection was highest relatively for medium-size cities, declining somewhat relative to population for large cities.

### Fabric News

Germproof, mothproof, moldproof, and odorproof products are the aim of a new formula which can be used to treat shoes, fabrics, and other items. Called Permachem, it will not evaporate, wash out, or wear off in ordinary use. The product is manufactured by Permachem Corporation, 5610 Georgia Avenue, West Palm Beach, Florida.

To mend plastic furniture and clothing the Miracle Adhesive Corporation, 214 East 53rd Street, New York 22, is marketing a new patching kit. A tube of transparent plastic cement and a vinyl sheet are included in the Miracle Number 41 Plastik Adhesive Kit, and the major innovation is that no heat is required.

The 1956 revision of the booklet *Standard Test Methods for Vinyl and Pyroxyln Coated Fabrics and All Plastic Sheeting* is available without cost from the Vinyl Fabrics Institute, 65 East 55th Street, New York 22. The booklet includes 21 standard test methods and alternative methods for determining the product qualities needed for certain general uses. A general discussion of the vinyl fabrics industry is also presented.

### Sponge Special

A chemically treated sponge is being manufactured by M & M Specialties, Inc., 842 Third Avenue, New York 22. Dipping the sponge in water creates a foam that will remove dirt and grease from rugs, upholstery, and car interiors, and there is no need to rinse the fabric. Called Foam-O-Cel, each sponge contains enough chemical to clean three 9 by 12 rugs.

A new plastic sponge is also making news. The sponge remains soft even when dry and is unaffected by soaps or cleaning fluids. The Dura-Soft sponge can also be sterilized without weakening it. It is manufactured by the Plastics Division, Curtiss-Wright Corporation, 30 Rockefeller Plaza, New York 20.

### Trends in Vending

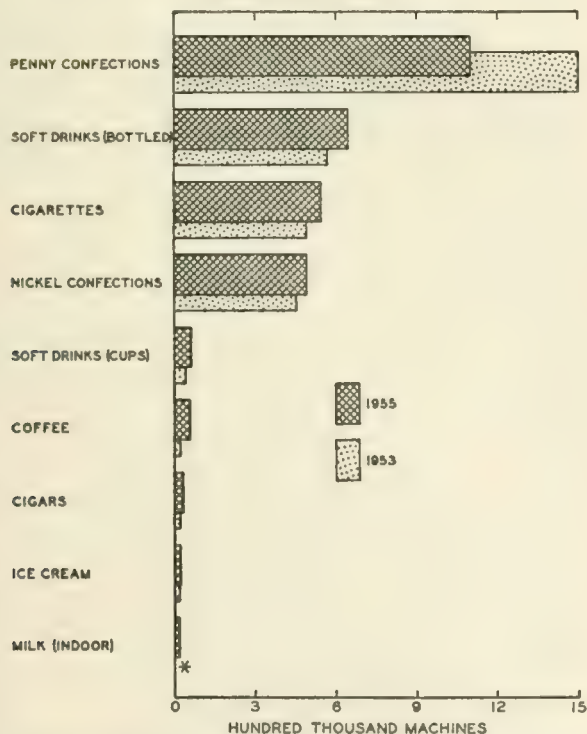
Inflation continues to rear its head among the vending machines, with nickels and dimes still pouring in while the stream of pennies dwindles. Since 1953 the number of penny confection machines in use has fallen off by more than 26 percent as higher costs have cut their profitability and high consumer incomes have made the more expensive candies and nuts more popular. Penny sales still account for about 90 percent of total confection sales, however, and for the largest share of machines in use, as may be seen in the accompanying chart.

After the confection market, the soft drinks market boasts the largest number of machines in operation. During 1955 there were about ten times as many venders of bottled drinks as of drinks in cups, although the former sold less than four times as many drinks, because of the high volume of sales in industrial plants where cups are more popular.

The number of cigarette dispensers continued to increase in 1955, with vending machines making about 14 percent of total sales. The sales through machines have declined, however, in each of the past two years; this is partly attributable to the popularity of king-size and filter brands which cannot be sold through the older machines. Cigar sales, on the other hand, have continued to grow.

The number of coffee venders has more than doubled since 1953, far surpassing other major types of machines in growth rate. Ice cream vending has also expanded, with machines offering a choice taking over from older one-product machines. Industrial plants have been installing milk machines rapidly, giving great impetus to that segment.

VENDING MACHINES IN OPERATION,  
1953 AND 1955



\* Not available.

Source: *Vend, 1956 Census and Pulse of the Vending Machine Industry*

# DEBATE OVER MONETARY POLICY IN 1956

RUTH A. BIRDZELL, Research Associate

Each hesitation or break in the upward progress of the nation's economy produces a spate of explanations or theories as to the whys and wherefores. In the postwar years one commonly accepted theory has been that business reversals have been based on swings in inventory accumulation and liquidation. Other factors have also been cited from time to time. The military "stretch out" has sometimes been blamed for the recession of 1954.

The present leveling off, however, has brought forth from certain sectors of the business world fairly vocal support of a different explanation—one which lays a considerable portion of responsibility at the door of the Federal Reserve System.

## Money Supply as a Business Indicator

Analysts who are wont to emphasize the effects of monetary policy on the economic situation consider that their reasons for doing so have been strengthened by the developments of the past year or so. In their view, the present adjustment has been occasioned to a considerable degree by an inadequate supply of money, that is, demand deposits and currency. Consumers have been affected since finance companies have been obliged to tighten terms on installment loans. Builders have been unable to move ahead without commitments for financing. Adherents of this school of thought feel that the inadequacy of funds has been aggravated recently by the "tight money" policy of the Federal Reserve banks.

Chart 1 illustrates Federal Reserve discount rate changes and the effects these changes have had. The top panel shows how the discount rate has been raised in a series of steps to the highest level in the postwar period. At the same time, the interest rate on three-month Treasury bills has risen faster, so that the margin of the dis-

count rate over the bill rate has fallen. As the market tightened, commercial banks have liquidated short-term Government securities in order to make loans. Total loans and investments have therefore remained about stable.

The five increases in the discount rate in the past eighteen months have raised it from  $1\frac{1}{2}$  percent to  $2\frac{3}{4}$  percent (3 percent in the Minneapolis and San Francisco districts). Analysts who support the money-supply theory consider that each time the Reserve banks have raised the rate, they have made it more difficult for commercial banks to expand their loans in support of the level of business activity. Moreover, with the rate on three-month bills now in the vicinity of  $2\frac{1}{2}$  percent, big corporate depositors prefer to hold their liquid funds in bills rather than in bank deposits on which they earn no interest. With the banks thus unable to provide credit or able to do so only at higher rates of interest, businesses are unable to maintain their levels of activity and the rising trend may be halted or reversed.

Free reserves—excess reserves less borrowings from the Reserve banks—were a negative quantity in the last half of 1955 and the first quarter of 1956. Commercial banks were substantially "in debt" to the Federal Reserve banks in their effort to support the rising level of business. Reduced holdings of short-term Government securities and the indebtedness to the Reserve banks have both decreased bank liquidity and have acted as a brake on loan activity. In addition the ratio of the money supply to the gross national product has fallen to a postwar low.

Chart 2 portrays the relation of the money supply-GNP ratio to the Federal Reserve Board's index of industrial production in past situations where business recessions occurred. In each of the five cases, a decline of the money supply ratio has been followed, after a lag of six months to a year, by a fall in the production index. It has been pointed out, for example, that the ratio fell  $7\frac{1}{2}$  percent in the year prior to the 1929 crash. In the past year, the drop has amounted to about 5 percent at a time when GNP has risen sharply. It is assumed that only a high rate of turnover in money and deposits has permitted the rapid rise thus far and it is feared that another general cut in production is in the offing.

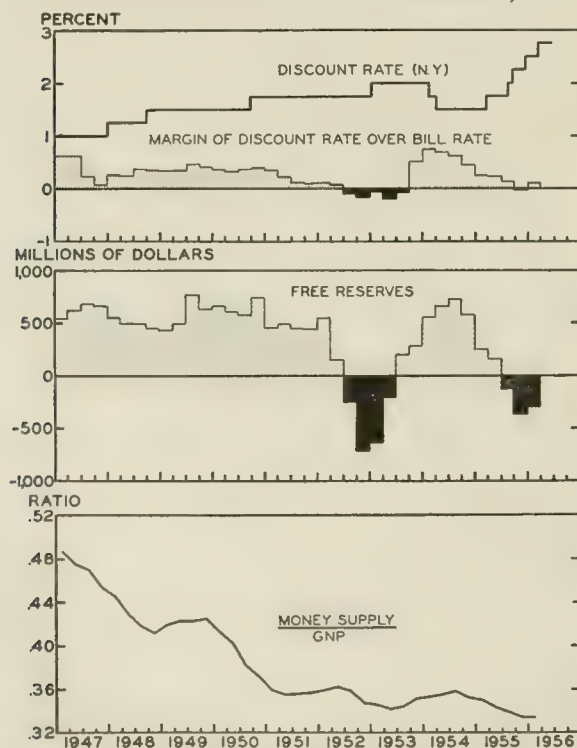
## Monetary Versus Other Factors

The Federal Reserve Board, of course, takes a quite different tack in its approach to the problem. It blames monetary tightness on the excessive enthusiasm of consumers and businessmen in expanding their purchases on credit. Business loans, mortgages, and consumer installment loans have all moved up rapidly, creating a demand for funds in excess of the available supply.

The tighter money supply would be expected to have its chief effect on the business world. But business expenditures, particularly capital expenditures, have yet to show signs of distress. Both the McGraw-Hill and SEC-Commerce surveys of capital expenditures indicate record levels over the near future. About the only qualification made so far is that business firms might stretch their plans out over a somewhat longer period of time.

This leaves the present adjustment chiefly in the personal consumption area where the effect of monetary policy is felt only indirectly. The present adjustment has been confined to a few sectors of this area. Leaving aside reduced farm expenditures on the basis of the de-

CHART 1. MONETARY DEVELOPMENTS, 1947-56



Source: Federal Reserve Board.



cline in farm income, we have an adjustment mainly in consumer durables and housing.

Despite the slump in spending for some durables, consumers are spending for durables at a rate substantially higher than at any time other than 1955 and are carrying a record amount of debt to do it. More cars were sold in the first five months of this year than in any other except 1955. Automobile paper outstanding was still showing advances at the end of May even though the increases were smaller than they were in earlier months.

Similarly, the total value of private residential construction for the first five months of 1956 was \$5,655 million, down 7 percent from the corresponding period of last year, but well over other previous years. An increase in house size has partially offset the decrease in number of units started.

Even in the consumer sector, therefore, 1956 is going very well indeed by comparison with any year but 1955. Personal income is at an all-time high, as is consumer spending, and no sign of a halt is in sight. Current difficulties have manifested themselves mainly in a shift of consumption spending from durables to nondurables and services, and saving has increased only moderately.

Although Chart 2 seems to make a fairly telling point in the case for the money supply theory, it does not tell the whole story, because it shows only portions of the money supply-GNP ratio cycle. When the missing portions are shown, at least in the postwar period, an inverse relationship between the ratio and industrial production immediately becomes apparent. This inversion can be seen in the bottom panel of Chart 1.

Whenever the money supply remains fairly stable, its relation to activity will be inverse without necessarily determining the pace of activity. This seems to leave open for further discussion whether the money supply is the cause or whether it is merely one effect of cycles brought on by other factors.

## Role of the Federal Reserve

The Federal Reserve System insists that it is only acting in accordance with its duties as an economic regulator. William McC. Martin, Jr., chairman of the Board

of Governors, has cited four factors that must be considered in establishing Reserve policy: (1) the requirements of the Treasury; (2) the seasonal needs of the private sector of the economy; (3) the requirements of a growing population and a growing economy; and (4) the psychological nature of expectations. For the last two of these, there are no dependable means of measurement, so that judgments have to be made. Mr. Martin has likened the responsibilities of the Reserve System to a heating and cooling plant. It has a duty to try to avoid "deflationary chills and inflationary fevers." At present, there are differences of judgment between analysts, in agreement on the importance of monetary factors, as to whether the furnace or the air conditioner should be running.

Viewed in terms of broad functions, the FRB could hardly have done otherwise than impose restraints. As the recovery of 1955 shifted to a booming expansion, the Fed shifted its emphasis from aiding recovery to attempting to restrain spending excesses which bordered on the inflationary. It has often been pointed out in recent months—though not perhaps by Federal Reserve spokesmen—that the American economy has been bumping against a capacity ceiling and that to try to expand too rapidly would simply bid up the prices of production factors. Fearing inflation more than deflation, the Fed continued to tighten the screws on money. If loan demand continues to exceed the supply of funds, the Reserve banks will not make up the difference by creating bank credit and will discourage the commercial banks from doing so. This is in accordance with the role of the Reserve System as an economic stabilizer.

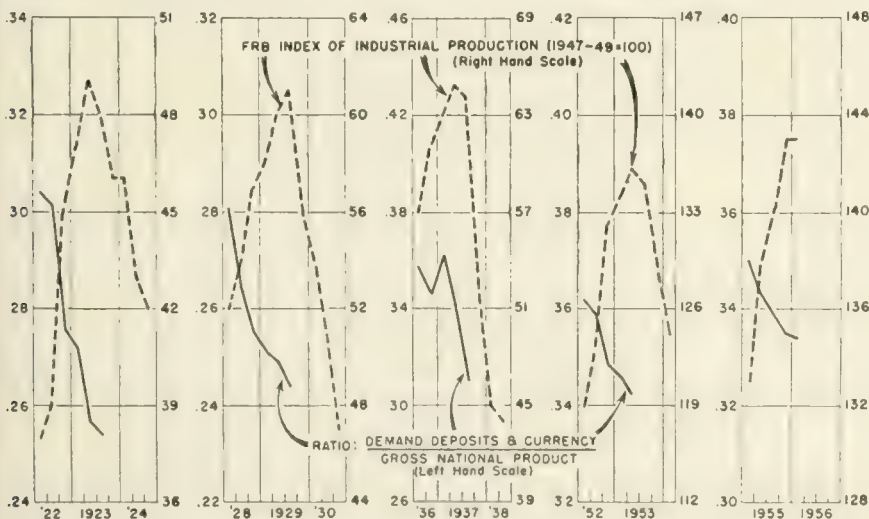
At the same time that the FRB has a duty to counteract inflation, it is also committed to ease credit if sustainable growth appears to be hindered or if a downturn starts. In recent weeks, for example, the Fed has apparently eased its policy somewhat, but this can scarcely be heralded as a response to a downturn; rather it may be considered a meeting of seasonal requirements of businesses for bank loans to meet their income tax obligations. Further actions by the Board would seem to depend entirely on the future course of business.

More than a year of tightening has not forced a downturn. A general slump may develop, but the Federal Reserve System has made plain its intention to shift its policy to keep pace with business needs.

Opponents of the Federal Reserve policy assert that the Fed's controls work only in one direction—that the Fed can hinder expansion by restraining credit but cannot stop recession by easing controls. The Fed can discourage borrowing in boom times, but can do very little to encourage borrowing in times of recession.

This debate calls into question not only current policy but the basic functions of the Federal Reserve System and seems to confirm the position of Allan Sproul, retiring head of the New York Federal Reserve Bank, who says it is time for a comprehensive study of monetary markets and policies.

CHART 2. RELATION OF PRODUCTION AND MONEY-GNP RATIO



Source: Prepared by industry analysts from data of the Federal Reserve Board, National Bureau of Economic Research, and U. S. Department of Commerce (seasonally adjusted data).

# LOCAL ILLINOIS DEVELOPMENTS

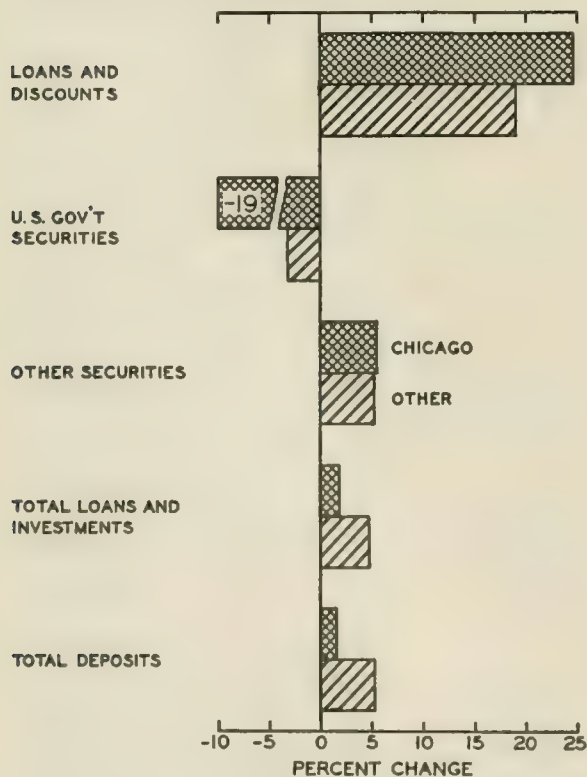
Business held its high level during May, with most major indexes moving in a narrow range. Construction contract awards showed the greatest decline, 4 percent, and department store sales were the only indicator to gain more than 5 percent, rising 14 percent as seasonal buying of summer items pushed them upward.

Activity was still strong in comparison with a year ago in most segments of the Illinois economy. Business loans at leading Chicago banks boomed along 32 percent higher. Life insurance sales and coal production were up about 15 percent, and most other indicators had risen somewhat. Construction contract awards were the only major indicator lower than in May, 1955, dropping 16 percent, but they were still substantially higher than any other May on record.

## Banking Booms

Totaling more than \$5 billion on May 30, loans and discounts at member banks in the Illinois portion of the Seventh Federal Reserve District have increased almost one-fourth in the past year, reflecting the boom in business activity. Loans in Chicago increased relatively more than those in the rest of the State, as may be seen in the accompanying chart although the same is not necessarily true for business activity, since many outlying firms may obtain funds from the large city banks. Not all of these loans represented an increase in the money supply; more than three-fourths of the funds came from a decrease in the United States Government security portfolios of these banks. Hence, the total of loans and investments expanded only slightly.

**BANKING GROWTH, MAY, 1955, TO MAY, 1956**  
Illinois Banks in 7th Federal Reserve District



Source: Federal Reserve Bank of Chicago.

Debits to demand deposit accounts at Illinois banks were about 4 percent greater this May than a year earlier. This gain was not felt throughout the State, however, as may be seen in the data on page 11. Changes ranged from a slight decline in Bloomington to an advance of 18 percent in Alton.

## Commercial Fishing

Illinois lakes and rivers yielded almost 8.5 million pounds of fish to commercial fishermen during 1955, a gain of about 1.7 million pounds or 24.4 percent over the previous year, according to the State Department of Conservation. Dollar value did not increase as rapidly as volume, growing 22.6 percent to \$787,000.

The Illinois River haul made up almost half of the total poundage, with the Mississippi not far behind. In dollar value of the catch, however, the latter river surpassed the Illinois, because of more valuable varieties of fish. Carp led the varieties caught with a total of more than four million pounds. Another two million pounds were added by buffalo fish.

## Solving the Water Problem

With the threat of drought hanging over the State, numerous areas are seeking additional sources of water for their homes, farms, and industries. One answer to the problem has been found in the construction of farm ponds, which are being prepared at record rates. More than 1,500 such ponds were approved by the United States Soil Conservation Service in 1954, three times the number in the preceding year, and the final total for 1955 is expected to be even higher. Where location and watershed are favorable, financial aid from both the Federal government and the State are available to help in the construction of dams for the ponds.

In 1954 construction began on a lake near Girard, Illinois. The spillway was completed in May, and the lake is now beginning to fill. The area around the lake will be used for residential building and for recreational purposes.

Another artificial lake primarily for recreational purposes is planned a few miles from Urbana. Construction is expected to begin next year and will require about two years for completion. Two dams and a diversionary channel for the west branch of the Salt Fork Creek will be needed to form the 160-acre lake.

## Fruit and Vegetable Variations

Because of the variety of climate and soils in the State almost every type of truck crop can be grown in Illinois. The northern counties produce such cool-weather crops as cabbage, sweet corn, peas, and asparagus. In the south, however, berries and melons are the important crops. The State is also a large producer of tomatoes, carrots, cucumbers, beans, and onions.

A total of 127,000 acres was planted to the 15 major truck crops in Illinois last year. This put the State among the top producers of fruits and vegetables in the nation, with a total value of almost \$19 million.

The long-term downward trend in the number of fruit trees, especially peach and apple, has continued into 1956 according to the Illinois Cooperative Crop Reporting Service. The decline has come in the small commercial and farm orchards, with the large commercial orchards in the southwestern area of the State showing an increase.



# COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

May, 1956

		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b>		<b>\$41,755<sup>a</sup></b>	<b>1,045,968<sup>a</sup></b>	<b>\$529,538<sup>a</sup></b>		<b>\$14,601<sup>a</sup></b>	<b>\$14,959<sup>a</sup></b>
Percentage change from...	{ Apr., 1956. May, 1955.	+8.1 +10.6	-1.8 +10.2	-26.0 +4.4	+11 +8	+2.0 +3.6	+5.0 +12.2
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b>		<b>\$27,440</b>	<b>793,741</b>	<b>\$395,207</b>		<b>\$13,310</b>	<b>\$13,067</b>
Percentage change from...	{ Apr., 1956. May, 1955.	+15.6 -2.1	-2.6 +9.6	-34.9 +5.3	+16 +8	+1.9 +3.0	+5.5 +12.6
<b>Aurora</b>		<b>\$ 568</b>	<b>n.a.</b>	<b>\$ 7,568</b>		<b>\$ 61</b>	<b>\$ 151</b>
Percentage change from...	{ Apr., 1956. May, 1955.	-76.8 -16.0	n.a.	-27.6 +7.9	0 +4	+9.2 +14.8	+14.3 +31.3
<b>Elgin</b>		<b>\$ 544</b>	<b>n.a.</b>	<b>\$ 5,063</b>		<b>\$ 39</b>	<b>\$ 84</b>
Percentage change from...	{ Apr., 1956. May, 1955.	+129.5 +26.5	n.a.	-36.1 -1.7	+1 +4	+8.1 +11.5	-10.1 +1.7
<b>Joliet</b>		<b>\$ 474</b>	<b>n.a.</b>	<b>\$11,011</b>		<b>\$ 78</b>	<b>\$ 95</b>
Percentage change from...	{ Apr., 1956. May, 1955.	-19.9 -43.8	n.a.	-27.1 +3.9	+20 +5	+5.2 +14.5	+4.6 +29.5
<b>Kankakee</b>		<b>\$ 237</b>	<b>n.a.</b>	<b>\$ 4,383</b>		<b>n.a.</b>	<b>\$ 45</b>
Percentage change from...	{ Apr., 1956. May, 1955.	-26.6 +33.1	n.a.	-32.2 -12.5	n.a.	n.a.	-9.4 +17.5
<b>Rock Island-Moline</b>		<b>\$ 883</b>	<b>21,297</b>	<b>\$ 9,134</b>		<b>\$ 92<sup>b</sup></b>	<b>\$ 183</b>
Percentage change from...	{ Apr., 1956. May, 1955.	-23.5 -34.2	-6.6 +7.7	-26.1 +4.1	n.a.	+7.5 +5.0	+29.6 +19.6
<b>Rockford</b>		<b>\$4,004</b>	<b>37,780</b>	<b>\$17,267</b>		<b>\$ 174</b>	<b>\$ 217</b>
Percentage change from...	{ Apr., 1956. May, 1955.	+57.5 +159.2	+0.4 +14.3	-27.2 +6.9	+14 <sup>c</sup> +13 <sup>c</sup>	+4.8 +15.3	-6.0 +12.7
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b>		<b>\$ 366</b>	<b>7,895</b>	<b>\$ 4,807</b>		<b>\$ 61</b>	<b>\$ 107</b>
Percentage change from...	{ Apr., 1956. May, 1955.	+22.8 +6.1	-0.9 +17.2	-30.1 +0.0	n.a.	+0.9 -0.1	-10.1 -0.5
<b>Champaign-Urbana</b>		<b>\$ 548</b>	<b>9,974</b>	<b>\$ 6,530</b>		<b>\$ 68</b>	<b>\$ 106</b>
Percentage change from...	{ Apr., 1956. May, 1955.	-28.0 +4.6	-2.3 +9.3	-30.6 -2.0	n.a.	+5.3 +13.6	+3.0 +15.9
<b>Danville</b>		<b>\$ 441</b>	<b>9,994</b>	<b>\$ 5,351</b>		<b>\$ 49</b>	<b>\$ 63</b>
Percentage change from...	{ Apr., 1956. May, 1955.	-11.3 +28.2	-5.2 +10.7	-34.3 +0.2	-3 +12	-6.2 +5.7	-3.6 -0.9
<b>Decatur</b>		<b>\$1,318</b>	<b>32,185</b>	<b>\$10,442</b>		<b>\$ 112</b>	<b>\$ 120</b>
Percentage change from...	{ Apr., 1956. May, 1955.	-61.9 +6.2	+3.2 +21.3	-28.2 +10.7	+5 <sup>c</sup> +0 <sup>c</sup>	-0.1 +8.2	-1.3 +8.0
<b>Galesburg</b>		<b>\$ 342</b>	<b>8,151</b>	<b>\$ 3,791</b>		<b>n.a.</b>	<b>\$ 35</b>
Percentage change from...	{ Apr., 1956. May, 1955.	-22.1 +1.5	+3.9 +12.5	-30.8 +1.6	n.a.	n.a.	-3.0 -1.2
<b>Peoria</b>		<b>\$ 509</b>	<b>51,888<sup>c</sup></b>	<b>\$16,065</b>		<b>\$ 222</b>	<b>\$ 253</b>
Percentage change from...	{ Apr., 1956. May, 1955.	-19.7 -17.4	+4.6 +8.3	-29.4 +3.9	+7 <sup>c</sup> +10 <sup>c</sup>	+0.0 +17.1	+5.1 +14.5
<b>Quincy</b>		<b>\$ 283</b>	<b>9,391</b>	<b>\$ 4,493</b>		<b>\$ 40</b>	<b>\$ 67</b>
Percentage change from...	{ Apr., 1956. May, 1955.	+4.8 0.0	+1.7 +14.1	-29.5 +1.5	+3 -3	+3.2 +0.1	-1.6 -7.0
<b>Springfield</b>		<b>\$2,244</b>	<b>31,803<sup>c</sup></b>	<b>\$11,827</b>		<b>\$ 112</b>	<b>\$ 239</b>
Percentage change from...	{ Apr., 1956. May, 1955.	+653.0 +429.2	+3.1 +13.6	-30.4 -0.9	n.a.	+1.8 +5.7	+1.3 +0.1
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b>		<b>\$1,108</b>	<b>12,575</b>	<b>\$ 8,089</b>		<b>\$ 140</b>	<b>\$ 53</b>
Percentage change from...	{ Apr., 1956. May, 1955.	+150.1 +515.6	+0.4 +15.9	-25.1 -5.5	n.a.	+0.2 +12.4	-4.0 -7.9
<b>Alton</b>		<b>\$ 221</b>	<b>13,064</b>	<b>\$ 4,553</b>		<b>\$ 42</b>	<b>\$ 31</b>
Percentage change from...	{ Apr., 1956. May, 1955.	-7.5 +22.8	+2.5 +7.6	-26.6 -0.6	n.a.	+10.2 +18.3	+3.7 +9.5
<b>Belleville</b>		<b>\$ 225</b>	<b>6,230</b>	<b>\$ 3,955</b>		<b>n.a.</b>	<b>\$ 44</b>
Percentage change from...	{ Apr., 1956. May, 1955.	-16.4 -9.6	-6.0 +4.9	-27.6 -5.3	n.a.	n.a.	+1.5 +4.3

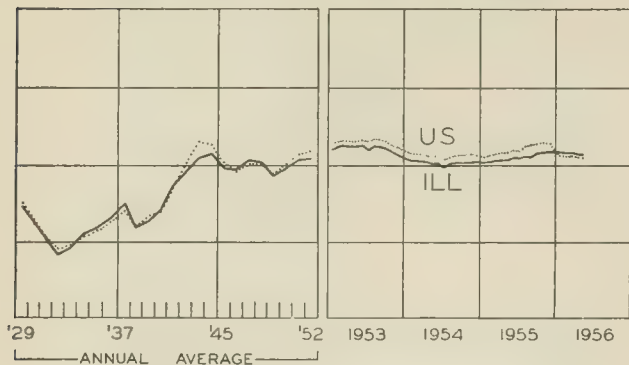
<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.

Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for January, 1956, the most recent available. Comparisons relate to December, 1955, and January, 1955. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

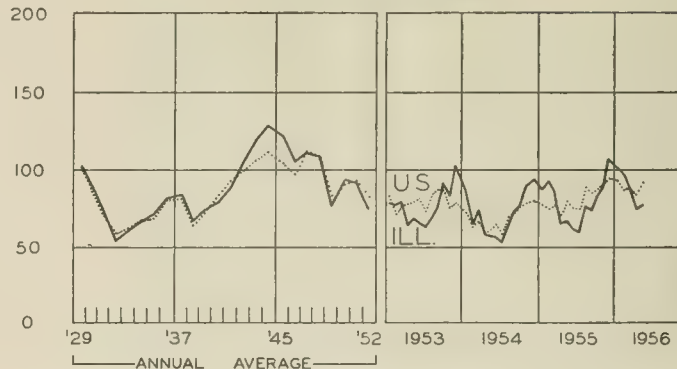
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

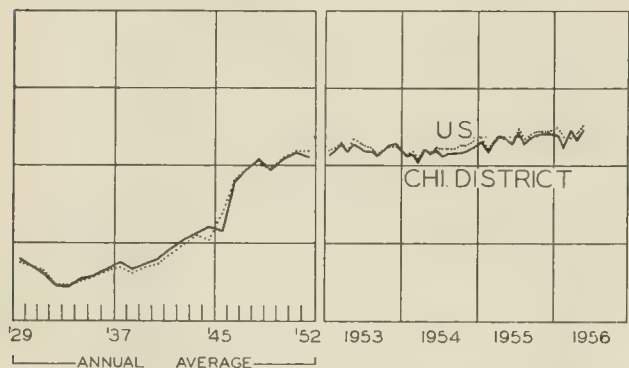
EMPLOYMENT-MANUFACTURING



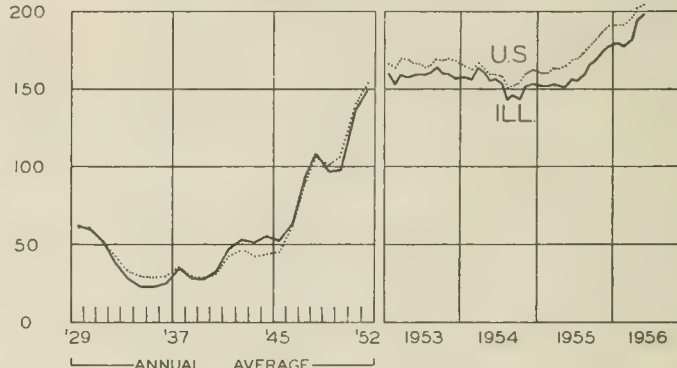
COAL PRODUCTION



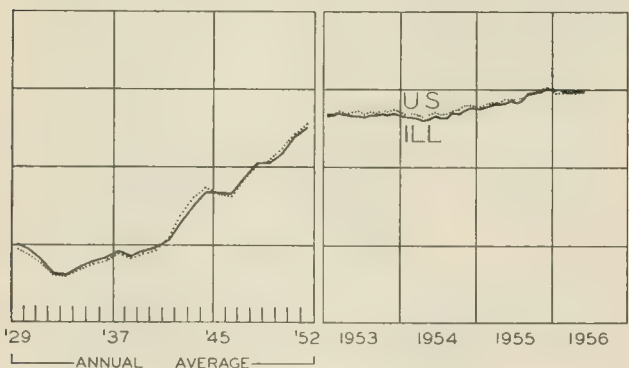
DEPARTMENT STORE SALES



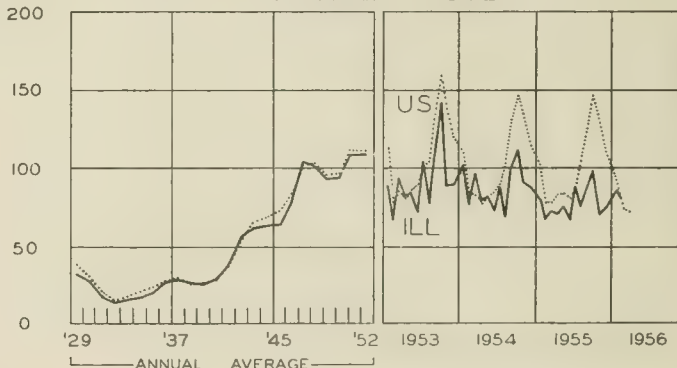
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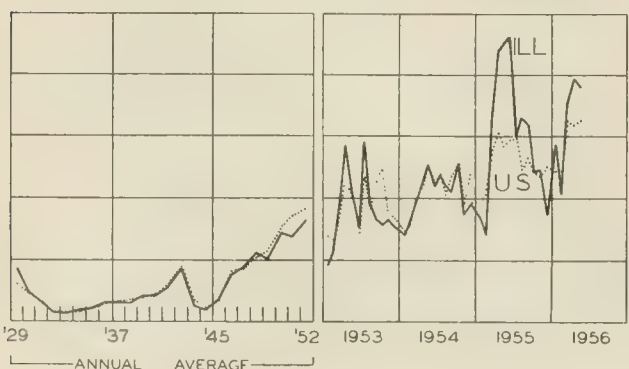
AVG. WKLY. EARNINGS — MANUFACTURING



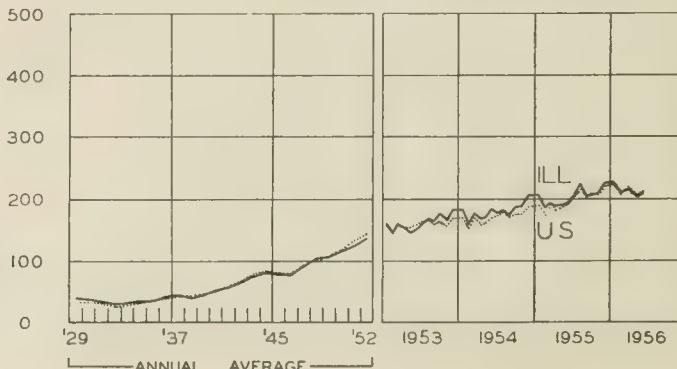
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
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NUMBER 8

## HIGHLIGHTS OF BUSINESS IN JULY

Industrial output dipped about 4 percent in early July, as the steel strike made itself felt. The dip followed a minor decline—less than 1 percent—in June, on a seasonally adjusted basis. The June level of industrial production was, however, 41 percent above the 1947-49 average and about 1.5 percent over the same month a year ago.

Repercussions from the steel strike hit other areas, notably coal mining and freight traffic, to a limited extent. Shortages of certain types of steel also developed. But as expected, the effects during July were not widespread. Normally, most steel-users carry stocks sufficient for four to six weeks' operations, and prior to the strike these stocks were substantially larger than normal.

### Retail Sales Strong

The strength shown by department store sales during the initial half of 1956 continued into the first two weeks of July. They were up 2 to 3 percent, seasonally adjusted, from June, and from last year's level.

Retail sales in June, the latest reported, were \$16.6 billion. After seasonal adjustment, the total showed no change from May. It was, however, 4 percent above June a year ago and consistent with the generally higher levels registered this year as compared with last. Business groups showing the largest gains from June, 1955, were drug and proprietary, up 13.6 percent; gasoline service stations, up 12.8 percent; food, up 12.6 percent; apparel, up 12.3 percent; and general merchandise, up 9.6 percent. By contrast, the lumber, building, and hardware group showed no change, whereas the automotive group was down some 7 percent.

### Construction at Record Levels

New construction in June, seasonally adjusted, was at a rate little changed from May but slightly above the June rate of last year. The total of construction in the first six months of this year reached \$20 billion, an all-time high, and 2 percent above the comparable period for 1955.

The records being set in this

field of activity conceal shifts in the importance of the major types of construction. Weakness in private residential construction is apparent, with activity in June down more than seasonally from May and 12 percent below year-ago levels. Housing starts in June were at a seasonally adjusted annual rate of 1,070,000 units, the lowest in two and a half years. Indications are that the downward trend will continue, at least over the next several months. The January-June total of requests to the Veterans Administration for appraisal of new construction plans was 38 percent below the total for the same period in 1955.

### Employment High

Employment in June exceeded the 66.5-million mark, the highest ever and 2.5 million above the number employed a year ago. Sectors with major gains were construction, up more than half a million from 1955; wholesale and retail trade, up almost half a million; services, close to 300,000; and government (Federal, state, and local), also up 300,000. Manufacturing employment, on the other hand, was down almost 200,000 from previous-year levels and was about 700,000 below the 1953 high.

Unemployment for June of 2.9 million equaled a rate of about 4 percent. This rate was down slightly from January and February but was close to that of the past few months and also to the rate prevailing a year ago.

### Government Runs Budget Surplus

With high employment and incomes helping to swell Federal revenues, the government realized a budget surplus in the fiscal year ended June 30. Revenues of \$68.1 billion were the highest ever and exceeded by \$3.3 billion the previous high of fiscal 1953. When matched against expenditures of \$66.4 billion for the fiscal year just ended, they yielded a surplus of about \$1.7 billion. The expenditure total was slightly below that for the fiscal year ending in mid-1954. However, it was almost \$2 billion above expenditures for the year closing in June, 1955.

Because of the annual vacation of the University Print Shop this issue of the *Review* is reduced in size. It omits the usual statistical data, which are generally not yet available. We shall be glad to send copies of the missing tables to anyone requesting them. The next issue will contain the usual 12 pages.

# ILLINOIS BUSINESS REVIEW

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## Investment Policy

There are two ways to ensure gains or prevent losses in the stock market. The first is to time purchases in such a way that price movements will work in the buyer's favor. The second is to select stocks that will produce a good return even though business and market conditions turn adverse.

At times, however, the market carries to extremes, so that the second of these procedures becomes almost inoperative. The present is one of those situations. Selection now offers little protection. In fact, many of the "best" stocks—judged by such criteria as "growth"—are the most overvalued.

### The Market Is Vulnerable

By the time of President Eisenhower's heart attack last summer, the market had risen to a point that made it definitely vulnerable. Ratios of prices to earnings and dividends stood at levels usually experienced near the peaks of past booms. The Dow-Jones Industrial Index was over a hundred points too high by the standards of reasonable past relationships to earnings and dividends. Only in 1928 and 1929 were the disparities greater.

Since then, the market has moved up further, remaining in a 10-percent range whose lower limit approximates the level reached a year ago. Earnings and dividends have also risen further, but with stock prices currently running near the top of the range, the disparity has not been greatly changed. Current earnings reports look favorable because they give comparisons with the lowest months of 1955. With some minor exceptions, industrial profits are now being squeezed by increased competition and rising costs. There is hardly any prospect that earnings and dividends can rise to the extent necessary to firm up the price level.

Last year we described the structure of the stock market and business conditions underlying it as a "house of cards." Since then another story has been added. It is still a collection of mutually supporting instabilities, sustained by a spurt of unfounded optimism. The fact that such a condition can persist for a year does not mean it can be expected to continue indefinitely. The 1929 break ended a period of extreme inflation of prices which had also persisted for more than a year.

### No License for Optimism

One of the anomalies of the current situation is

that the market has taken the steel strike as a license for optimism. By a curious twist of logic the strike has been made a force for inflation. It is assumed that the strike will do all sorts of things to ensure a "quick rebound."

We think it correct to argue—as we did in April, 1949—that strikes are not seriously deflationary. But they are deflationary, if anything. Only in the very superficial aspects of rising wages and prices in the steel industry are they "inflationary." Such "advances" in a single industry do not necessarily increase total demand in real terms and under certain conditions are likely to curtail it. Their most important inflationary impact has already been experienced in the months prior to the shutdown—in the drive for inventories of steel and for products made of steel.

The "quick rebound" theory is usually couched in terms of backlogs of demand. Most of this talk would sound better if it came after something significant had been adversely affected. Up to this point, hardly anything has been touched.

One common assumption is that the shutdown will produce an inventory boom after operations are resumed, as in 1952. This might be the consequence if inventories had been no more than normal at the time of the shutdown. But actual inventories were excessive, on the average, by well over a month's supply. Unless the strike lasts long enough to eliminate surpluses and create deficiencies, there is no reason to expect a spurt of production above the level of current needs in the new circumstances. Liquidation occurring in the course of a strike is not necessarily any less deflationary than liquidation in the absence of a strike.

The comparison with 1952 is the worst kind of analogy. Then, the military program was in a strong upward phase; inventories were at a minor cyclical low, completing a reaction from the excesses of early 1951; and housing, autos, and consumer credit had been subject to restrictions for more than a year. About the only thing the same now is the strike.

### Why Bonds Are Better

Today, residential construction has been going down for more than a year and seems likely to continue; the demand for mortgage loans will follow the same course. Auto sales have slackened; the demand for consumer credit has eased and seems likely to continue in the same direction until some liquidation of debt is effected. Inventory policy may have been pushed all the way over from accumulation to liquidation by the steel strike. All of these have been big items in the demand for funds that has tightened the money market.

Federal Reserve policy currently is designed, not to tighten the market further, but merely to maintain the tightness already effected. If business weakens, there will be a quick shift toward easier money. Even if it should just hold level in the months following the resumption of steel production, there will be pressure for some easing. This implies, of course, that bond prices will move up.

The conclusion for investment policy is that markets for bonds and stocks are biased in opposite directions, as they usually are at the peak of a boom. After the letdown, stock prices will fall and bond prices rise. The situation holds the opportunity for a double profit. There may never be a better time to switch from stocks to bonds.

VLB



### THE FROZEN FOOD INDUSTRY

The introduction and development of quick-frozen foods has had a far-reaching effect upon the modern American family. Not only has a great deal of the drudgery of food preparation been eliminated, but the term "out-of-season" has lost much of its meaning. Many garden-fresh fruits and vegetables and ocean-fresh sea foods have been made available throughout the year; and what once were local or regional foods are now available throughout the nation.

Growth of the frozen foods industry has been felt throughout our national economy. Some 30,000 workers are directly employed by the industry, in addition to thousands of persons whose services are called on in processing and distribution. Many allied and subsidiary industries, such as construction, farm equipment, packaging, refrigeration, and rail and truck transportation have also shared in the newly created business.

#### Discovery and Development

There were many successful experiments made in the quick-freezing of foods, both in America and in Europe, but early attempts to commercialize the process proved unsuccessful. Such methods consisted of immersing fish in super-cooled brine, freezing them as quickly as possible, so as to keep the fish tasty and ocean-fresh. However, consumers tended to associate the name "frozen" with slow-frozen food kept in cold storage and were consequently highly skeptical.

It was not until the 1920's that Clarence Birdseye—hailed as the father of frozen foods—initiated the quick-freezing of perishable foods in consumer packages, eliminating the brine immersion process of freezing. His original discovery of quick-freezing took place in Labrador in 1915 while he was trapping for furs. He noticed that when meat was left out in temperatures of  $-50^{\circ}\text{F}$ . it froze solid almost at once, and when thawed and cooked months later it still retained its fresh flavor. Other experiments with fish, frozen in the arctic air, convinced him that it was quick-freezing that made the difference. When he returned to the United States he set about developing this method of freezing on a commercial basis, and in 1923 perfected the "belt-froster," which used dry ice as a refrigerant.

In 1924 he organized the General Sea Foods Corporation. Within two years the original belt-froster had grown into a twenty-ton quick-freezer, but the quick-frozen products did not sell. Consumers were still skeptical of frozen foods and the problem of distribution became critical, for there was no way to keep the products frozen at low temperatures while they were on display in the stores. By 1928, with more than 1.5 million pounds of frozen sea foods still unsold from the previous summer, it became obvious that a new method of distribution was needed.

#### Birth of an Industry

In June, 1929, the Postum Company, later named the General Foods Corporation, acquired all rights to the

"Birds Eye" patents and properties. This was the beginning of a long struggle for survival and marked the birth of the frozen foods industry as we know it today.

In 1930 General Foods developed one of the largest promotional campaigns in the history of any new industry. For forty weeks Springfield, Massachusetts, was the scene of an experiment which showed consumers' skepticism of frozen foods could be converted into enthusiasm. Frozen food cabinets, each costing \$1,500, were installed free of charge in 18 stores, and 26 different frozen food products were shipped to them on consignment. Even though the local campaign was a success in itself, millions of dollars had yet to be spent on adequate transportation and storage facilities, on improving the freezing process, and on promotional activities before national public acceptance gradually removed the frozen food prejudice. It was not until 1937 that Birds Eye frozen foods finally managed to creep out of the red.

World War II gave the industry a shot in the arm. The armed forces made large purchases and civilian consumers with high incomes could pay premium prices for unusual and convenient foods. Hundreds of new companies entered the field, and large volumes of poor quality frozen foods were produced by inexperienced packers. By 1947, frozen foods had lost a great deal of their public support, and approximately 200 firms went out of business during the next two years for lack of a market. However, the industry gradually regained its lost ground.

#### The Industry Today

In 1955 approximately 1,550 commercial frozen food packers produced 4.4 billion pounds of products valued at \$1.7 billion as compared with 1938 when 40 packers turned out 265 million pounds valued at \$65 million, according to *Quick Frozen Foods*. There are currently some 300 varieties of frozen foods packed in over 700 combinations. The largest single item sold is orange juice concentrate, while peas are the biggest single vegetable, and strawberries the outstanding fruit.

Nine major packers do almost one-third of the total volume of frozen food business. They are Birds Eye, Minute Maid-Snow Crop, Campbell-Swanson, Libby, PictSweet-Honor Brand, Seabrook, Morton, Pasco, and Dulany. Mergers have played an important role in the expansion of the industry, and many large corporations have seriously considered frozen foods as a means of diversifying their operations.

Frozen foods are packed in every state, to some extent, but the bulk is done in the West Coast, Gulf, and northeastern states. California, New York, New Jersey, Oregon, and Washington lead in vegetables, and these same states, together with Florida, Michigan, and Pennsylvania account for most of the fruit freezing. Illinois, although not a major commercial freezing state, ranks as the leading state in total allied and subsidiary industries, namely, home freezing equipment, transportation, warehousing, farm equipment, food processing, and refrigerated locker storage plants.

# KNOW YOUR STATE

# RECENT ECONOMIC CHANGES

## Prices Rising

Prices on the average were on the way up through the first half of 1956. At the consumer level the rise from December to June was only about 1 percent as prices for consumer goods and services continued to move narrowly, with advances in some lines, particularly food in May and June, more than offsetting declines in others. In June consumer food prices rose more sharply than since January of 1951, by 2 percent, and were up 1.7 percent over their level of a year ago. This increase was mainly responsible for the rise in the all-items index, which was up to an all-time high in June, exceeding slightly the previous peak reached in October, 1953.

The advance in food prices indirectly reflects the improvement in prices received by farmers. From the recent low of last December until June, farm prices received increased 11 percent. This rise has carried over into wholesale prices of processed foods and in turn to consumer prices (see chart). Wholesale prices of processed foods have risen 4 percent since December. The reversal in wholesale prices of farm products and processed foods since the end of last year has reinforced the advance in industrial prices that began in the second quarter of 1955. Thus the all-items wholesale price index in June was 4 percent above June a year ago.

## Vacancy Rates Hold Firm

Vacancy rates for dwelling units were unchanged from the fourth to the first quarter according to the latest Bureau of the Census survey. Units for sale or rent amounted to 2.7 percent of the total housing stock compared with 2.3 percent in the second and third quarters of 1954 and 1.6 percent in 1950. As in the fourth quarter of last year, 2.2 percent of vacant available units were for rent and 0.5 percent for sale. The West and South continued to have the highest vacancy rates and the Northeast and North Central regions the lowest.

## Profits Continue High

In the opening three months of 1956, sales and earnings of manufacturing corporations were above any other first quarter on record, though down from last year's fourth quarter. Sales amounted to \$71.9 billion in the first quarter compared with \$73.6 billion in the fourth quarter and \$65.6 billion in the first quarter of 1955.

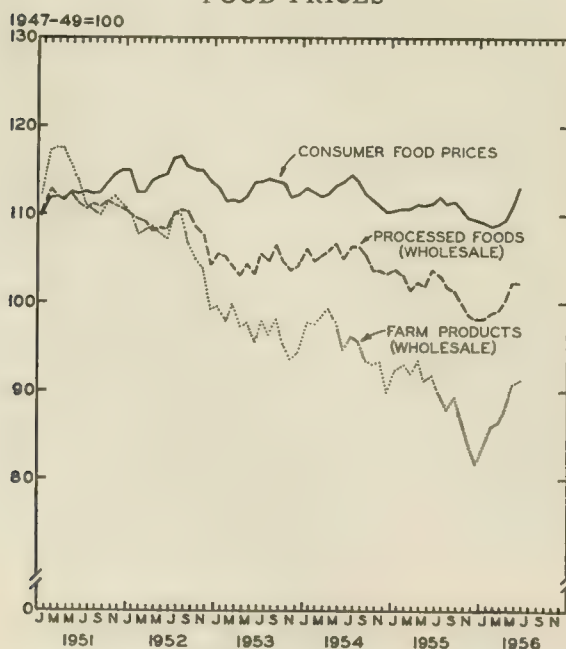
Profits after taxes were \$3.8 billion, down \$400 million from the fourth quarter but a half billion over their year-ago level. The largest advances from the first quarter of 1956 were registered by the stone, clay, and glass, iron and steel, nonferrous metals, and machinery industries. Only six industries reported cuts from the first three quarters of last year. The motor vehicle and lumber groups each had reductions of 20 percent. Lesser declines were reported by the electrical machinery, transportation, instruments, and leather groups.

## Dividend Payments Higher

With profits remaining high, corporations have continued to pay out an increasing volume of dividends. In June cash dividend payments totaled \$1.6 billion, 17 percent above June, 1955. In the first half of 1956 dividend disbursements totaled \$5.4 billion, also 17 percent above January-June, 1955.

In manufacturing, dividends were up a fifth over the first half of last year whereas disbursements by nonmanufacturing industries rose about 10 percent. Nonferrous metal firms upped disbursements by nearly 40 percent. Gains in other manufacturing industries were more moderate, with transportation equipment (other than autos) at the bottom of the list because of reduced extras in early 1956. Among nonmanufacturing firms, mining increased payments by 20 percent and financial firms paid out 10 percent more in the first half of this year than last. Payments in other nonmanufacturing groups, although up less than these two, rose significantly from last year.

FOOD PRICES



Source: Bureau of Labor Statistics.

## State and Local Government Investment

In the postwar period state and local governments have contributed significantly to our gross national product in the form of capital expenditures of various types. Between 1947 and 1954 state and local governments' investment outlays totaled \$48.5 billion and accounted for 2 percent of GNP, according to estimates of the Department of Commerce. Of this total, almost 60 percent has gone into highways and educational facilities.

The most common means of financing these expenditures has been borrowing. Between 1947 and 1954, 51 percent of state and local government capital outlays were financed by borrowing, 8 percent with Federal aid, and the remainder from current revenues.

Most state and local government debt is long-term debt guaranteed by the taxing power of the governments. Such debt amounted to 77 percent of the total outstanding in 1954. However, since limitations exist in most states on the total amount of outstanding indebtedness, state and local governments have frequently set up special authorities or other independent organizations which conduct work and secure financing outside of the debt ceilings. As a result, the amount of non-guaranteed debt outstanding has been rising rapidly—from 17 percent of the total in 1951 to 23 percent in 1954.



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Big Freeze

Home freezer capacity passed the three-billion-pound mark last year. More than one million units were sold during 1955, fewer than in the years of the food plans but 8 percent more than 1954 and more than six times as many as in 1946. In addition the average size of home freezer sold last year, over 15 cubic feet, was almost twice as large as that sold in 1946.

As may be seen in the accompanying chart, capacity has far outpaced the retail frozen fruit and vegetable pack. Meat probably fills up much of the remaining space, especially in farm freezers, with concentrated juices, ice cream, and baked goods also sharing the zero temperatures. Because much of the food preserved in this way is prepared in the home there is no accurate way to measure the relative importance of the different goods.

The proportion of the consumer food dollar spent on commercially frozen goods (excluding dairy products) rose from less than 1 percent in 1946 to 3.4 percent in 1954. Measured in dollar value of sales, frozen poultry was by far the most important, accounting for about one-third of the total. Frozen vegetables ranked second with just over one-sixth of the total, and concentrated juices followed close behind.

### Census of Business

A wealth of economic data has become available with the publication of the 1954 *Census of Business*, covering sales, payroll, and employment developments in trade and service industries. The material has been prepared on state and local bases as well as for the nation. The many publications in this series are available from the Bureau of the Census, Washington 25, D. C.

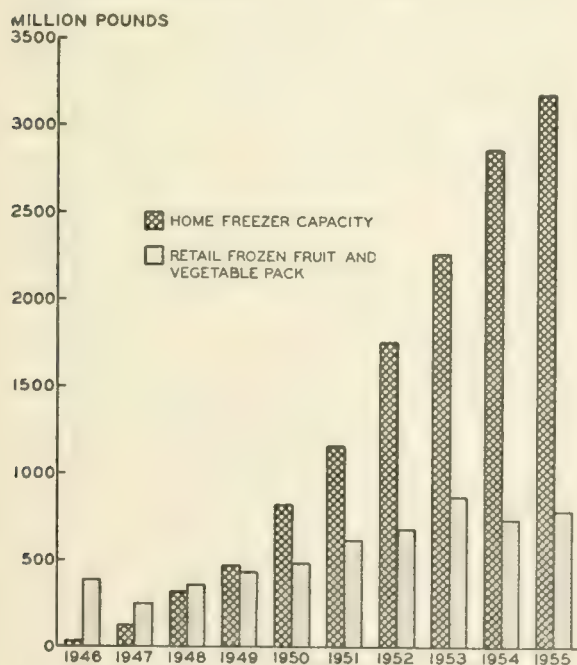
The census of retail trade covers establishments which sell merchandise to personal, household, and farm users,

excluding businesses operated by institutions and open only to their personnel or members. The data are classified by kind of business, rather than by commodity. Two important differences exist between the 1948 and 1954 censuses. One is the difference in cutoff point in enumeration, establishments with annual sales of less than \$2,500 being eliminated from the recent study whereas that in 1948 included those having sales of at least \$500; this may account for some of the drop in number of businesses, although it probably does not affect sales totals appreciably. Also, in the 1954 reports, sales and excise taxes are included in total sales, whereas they were not in 1948; the effects of this difference vary a great deal by locality and type of store.

Wholesale trade includes businesses selling primarily to retailers, industrial, commercial, institutional, and professional users and those acting as agents for such users. They are divided into two groups, merchant wholesalers and other, which covers sales branches and offices of manufacturing and mining companies, petroleum bulk plants and terminals, merchandise wholesalers and brokers, and assemblers of farm products. Excluded from the 1954 data are establishments with no paid employees and milk bottling plants which have been classed as manufacturing; these groups were included before.

Selected services are also covered in the recent *Census of Business*. Included are hotels and other lodging places, personal services, miscellaneous business services (except accounting and auditing), automobile repair services, miscellaneous repair services, motion pictures, and amusement and recreation services. In this section of the census, too, there are significant differences from the preceding census. First, a different technique of enumeration was used; second, in 1954 establishments not operating at year-end but operating at some time during the year were included; third, the minimum size was doubled in 1954; and fourth, media costs of advertising agencies were included in the more recent census.

### POSTWAR GROWTH IN HOME FREEZING



Source: 1956 Frozen Food Fact Book and Directory

### Vacation Valuables

Motor traveling made easy is the object of several new items on the American market. To withstand the hours of sitting which plague many a driver on otherwise pleasant excursions, the Niagara Manufacturing and Distributing Company of Adamsville, Pennsylvania, has come up with the "Carssage." It is a flat cushion with built in cycle-massage motors which plug into the cigarette lighter.

Luggage problems may be at least partially solved by a new item from Canada. It is a light metal frame holding a storage bag for carrying clothes without creasing. When not in use, the frame and bag collapse into a small package. It is manufactured by Hugh Carson Company, Limited, 72 Albert Street, Ottawa.

### Postwar Industrial Expansion

In their efforts to keep pace with consumer (and resultant business and institutional) demand, most manufacturing industries have grown very rapidly in the postwar period. Recently the first data from the 1954 *Census of Manufactures* have been published by the Department

(Continued on page 7)

# TOWARD USEFUL BUSINESS FORECASTING

ARTHUR C. MEYERS, JR.

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The study of business cycles traditionally has concerned itself with the nature of the problem, its causes, some of its effects, and proposed solutions. Added to these areas is the problem of forecasting. Often the implication is that this a separate subject of inquiry unrelated to the other aspects of the problem. It is seldom emphasized that forecasting or foretelling any sort of event is intimately related to the nature of the event foretold, the causes of the event, and what generally can be done about it.

The man of action, no matter what his role—leader, lawmaker, or executive—and no matter whether his field is government or business, must have some principles to guide him as he uses forecasts of business activity. He must recognize useful and valuable forecasts. He must judge when forecasts are of limited value. He must help the forecaster realize that some forecasts help and some do not help those who plan and act.

## The Useful Forecast

A first principle can be stated. The most useful forecasts are those directed to developments or events that come as single, well-defined situations that the economic system must cope with. It is clear that we must want to do something about these situations and be able to do something. Intention is not sufficient. We must have capacity to do the necessary things.

In the field of economics this principle has certain implications. A turning point in business activity—be it a reversal of a downward or an upward movement—is an event clearly definable and understandable by all. Forecasters should concentrate on foretelling this sort of event. Information of this nature is necessary and valuable if one is to cope with changing business conditions. It is the one important event in business activity.

In addition to this all-important event, advance information on one other important aspect of business fluctuations is helpful. The extent of the movement of business activity, stated in some relative terms, such as a number of points in an index of production, or a certain number of unemployed, or whatever criterion suits the person responsible for action, is the second concern. This development cannot be separated from the time factor. Our concern here is the length of time the movement will take as well as its degree. The economy has a capacity to sustain itself for a while. A fall in business activity, even though severe, that does not persist over a long period of time could call for little or no action. Riding it out could be the appropriate course of action.

It can be observed at this point that if the business forecaster is able to forecast turning points and the degree or extent of change, he has done his job. Successful forecasts of this kind accomplish many things. Planning of either preventive or remedial action is permitted.

Greater proficiency at this kind of forecasting may bring us to the point where our views of criteria, such as the number of workers unemployed or the percentage of the work force unemployed, are changed. Clearly such criteria based on after-the-fact analysis force us to act to remedy a condition that may have been preventable. Such criteria may be replaced by other criteria. A second

accomplishment of this type of forecasting would be the assistance it could provide in determining the scope of our effort. The magnitude of the problem would be known. Forces could be marshaled to meet the problem. Excessive force and resources would not wastefully be brought to bear on the problem. Finally, no matter what approach is taken or what resources are mustered to solve a problem or cope with a situation, doing things takes time. Action must be under way so that lags between action and result do not defeat the purpose of the action.

## Some Useless Forecasts

Many forecasts serve little purpose because they do not answer fundamental questions. Every reader of economic literature has met such forecasts at one time or another. It is clear that foretelling has no value when nothing can be done about what is foretold. Let us take cases where total disaster is foretold. In such cases, nothing can be done, first, because the thing foretold is overwhelming (for example, sudden death or an atomic explosion without warning), or second, because there are no means to cope with it.

In the case of an overwhelming disaster there is no better solution to the problem than that which St. Francis of Assisi suggested. It is told that he was asked, while feeding pigeons, what he would do if he knew that death was to come in five minutes. His prompt answer was that he would continue to feed pigeons.

If there are no means to cope with foretold disaster it is certainly useless to foretell it. The information that one will die of cancer is a dubious contribution to one's knowledge at the present state of medical knowledge. No purpose is served. Oh, one purpose is always cited as being served—it allows one to put his affairs in order.

If it is pointed out that there can be cases of less-than-total disaster where nothing can be done, then our observation is—this is minor tragedy and what we previously discussed is major tragedy.

The foregoing remarks suggest several observations. Surely our past great depressions have not been total disasters; they were less-than-total disasters. They were, however, of the second variety of disaster—the one where no means existed to cope with it. With business cycle study in the United States dating from about the beginning of World War I and considering the absence of means to cope with the 1929 depression, it can be observed that little could have been done to cope with it even if its coming had been foretold accurately and the forecast was generally accepted. Available means to cope with the 1929 depression should have included understanding and willingness to act. All depressions prior to 1929 must certainly fall into the class of developments that were beyond available remedies.

Another type of forecast that is often made is the one that vaguely refers to the future of business activity as continuing an established progression. It is the type of forecast that one writer has referred to as the "more of the same" forecast. Extent of movement, turning points, and such references are omitted. A little reflection indicates that many forecasts are of this variety. That such forecasts train good forecasters or are capable of being used as a basis of policy certainly can be questioned.



## Diagnosis Versus Forecasting

As we learn more and more about fluctuations in business activity it is to be hoped that economics will see a development that parallels that which has taken place in medicine. With limited knowledge of the human body, medicine in earlier times pretty much had to predict what was wrong with an individual and then often wind up after death checking the prediction. Over and against prediction (prognosis) we have always had analysis of the situation (diagnosis). In economics, as in medicine, the ideal is to know how to diagnose correctly. More and more we should talk in terms of facts (symptoms) and less and less in terms of probabilities.

A comment in this area is that the recent textbooks in forecasting are coming to the diagnosis point of view. Using national income techniques and data, and other information available on activity in various sectors of the economy, a very satisfactory job of piecing together the facts and drawing conclusions about employment and gross national product is being done. More reliable information about the government budget is becoming available. Governments assist by seldom spending much less than they predict they will. Investment forecasts and consumer forecasts of all kinds are being perfected. When these various forms of behavior are accurately foretold, I submit that one is diagnosing, not forecasting.

These remarks suggest that the word "forecast" may one day be dropped. The Council of Economic Advisers, especially, should join such a movement. If this agency, protected by the principle of serendipity, ever destroys public confidence in itself and therefore loses its usefulness, it will be because it "forecast" when it should have "diagnosed."

## A Paradox of Forecasting

A forecast correctly made and effectively acted upon cannot then be evaluated by customary norms.

This is a paradox that has been pointed out by economists. Let us say our ability to forecast is perfected and measures to cope with fluctuations become completely effective. The undesirable situation is then averted. With this goes the chance to check the correctness of our forecast. Thus everyone is still looking for the great depression almost universally forecast as an aftermath of World War II. The absence of such a depression is generally considered to establish an error of forecasting. It might well reflect the fact that so many things were done that averted depression that it could not have occurred. If fear of depression prompted veterans' programs, liberalized social security, and other measures, then the forecast perhaps was partially negated by the action taken. This, added to pent-up purchasing power, gave us prosperity.

Most paradoxes can be resolved by careful examination. This one turns out to be no exception. When our forecasts are so accurate that we will credit them with being correct even after we have acted to invalidate them, then our state of knowledge in this area will be complete. It gets back to the distinction between forecasting and diagnosis. Long before complete knowledge is reached we may cease to forecast in an area of events and switch over to diagnosis. The fact that your illness was diagnosed by the doctor, action was taken, and you got well is not judged to be proof that the doctor was wrong when he said you would be very ill without treatment. The state of knowledge or performance is taken to have ad-

vanced so that chance of error—the fact forecasting must deal with—has been greatly reduced. Forecasting is then no longer necessary or appropriate.

This article has discussed the useful forecast, the forecast that has no usability, and the effect on forecasting of our changing knowledge. Other issues might well be discussed. Who makes the significant forecast? This question is asked in the light of the capacity of big government, big business, and big labor to act in this area. What form must the usable forecast take? As more questions of this kind are answered, progress will be made toward better forecasting and a better application of forecasting to the solution of our economic problems.

## Business Briefs

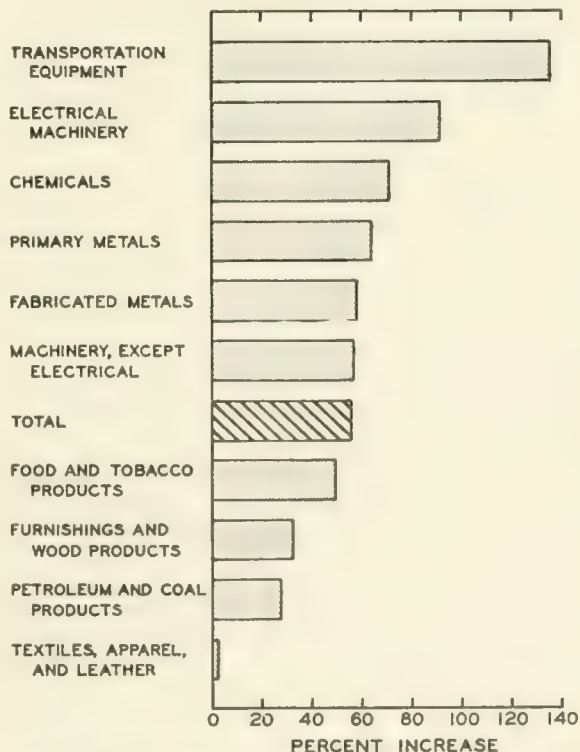
(Continued from page 5)

of Commerce. These show an over-all rise of 56 percent in value added by manufacturing from 1947 to 1954.

The growth was far from evenly spread, as may be seen in the chart below. Transportation equipment expanded the most of any of the major categories; this was the result of a doubling in the value added to motor vehicles and a 540-percent increase in aircraft and parts. The value of textile mill products actually declined by 12 percent between 1947 and 1954, although this is balanced by growth in apparel and leather products as indicated in the chart.

In addition to detailed data about the industries in the chart, the Census reports cover pulp and paper products, printing and publishing, rubber products, stone, clay, and glass products, and instruments. Information is broken down into states and local areas and includes employment, payrolls, material costs, and capital expenditures as well as value added by manufacture.

MANUFACTURING GROWTH, 1947-54

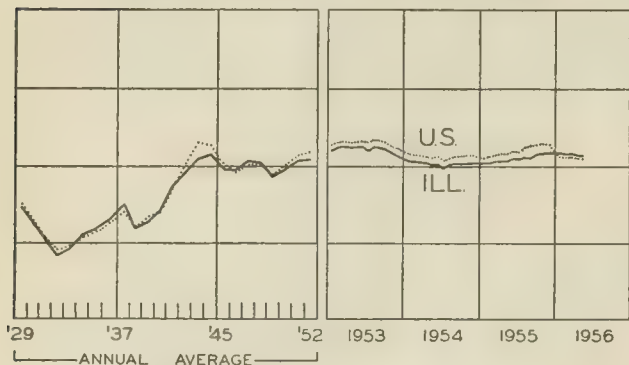


Source: 1954 Census of Manufactures.

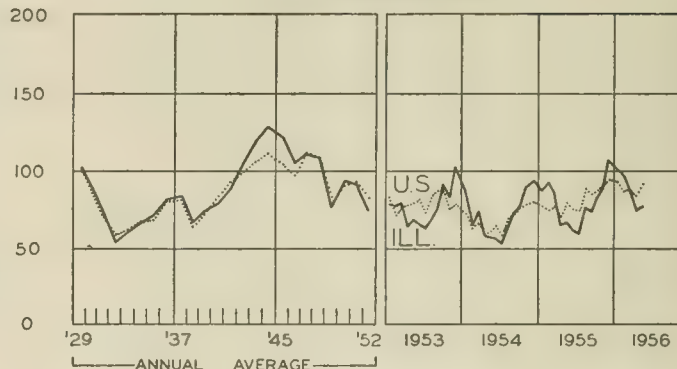
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

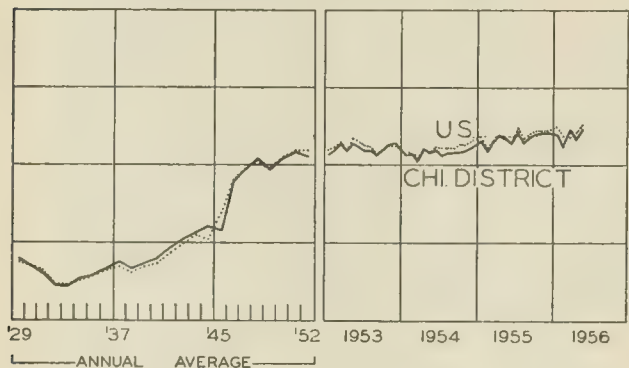
EMPLOYMENT-MANUFACTURING



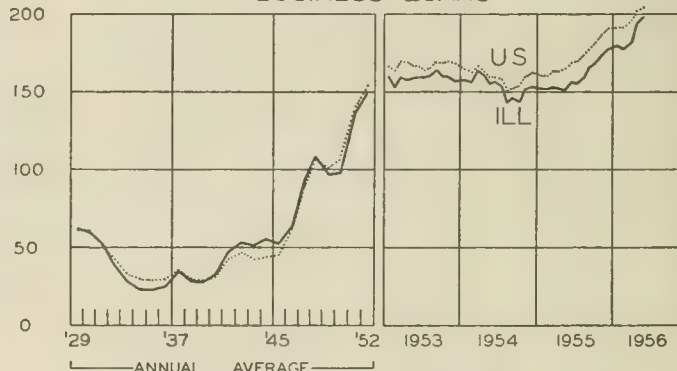
COAL PRODUCTION



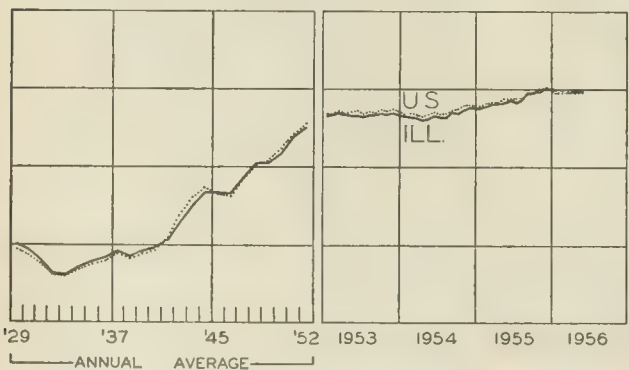
DEPARTMENT STORE SALES



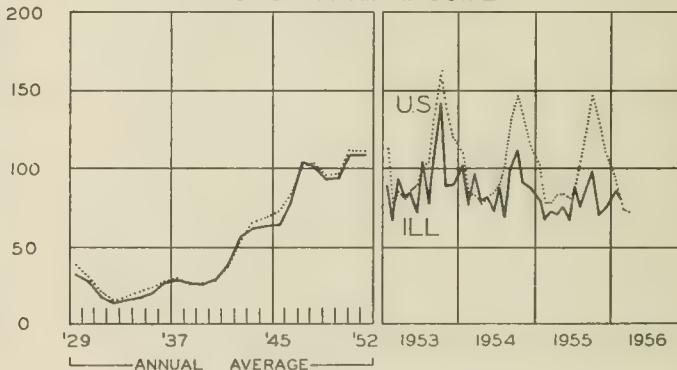
BUSINESS LOANS



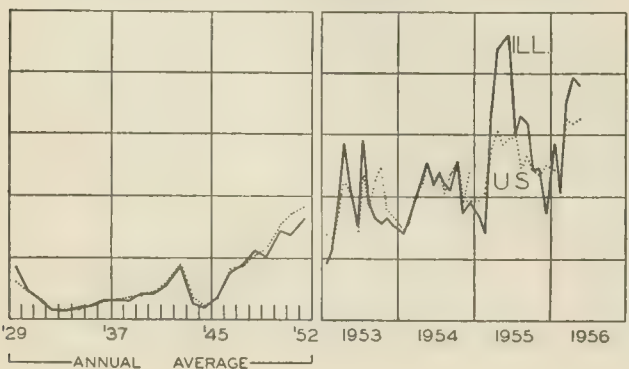
AVG. WKLY. EARNINGS — MANUFACTURING



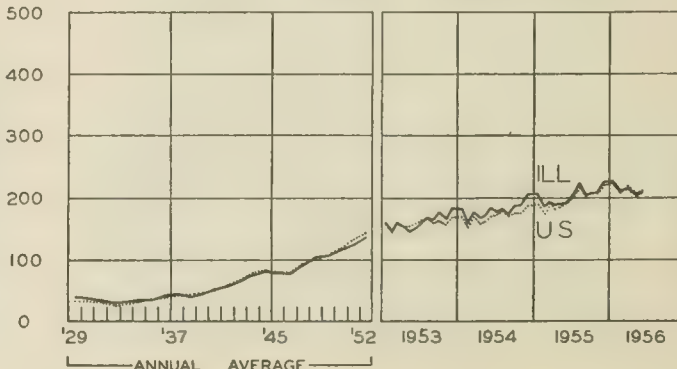
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
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## HIGHLIGHTS OF BUSINESS IN AUGUST

With the termination of the steel strike toward mid-August, steel output recovered rapidly and operations ended the month close to capacity. Over-all industrial output, which had dipped slightly in July and early August because of the strike, appears to have made a corresponding recovery.

Auto output dropped further in August. It was down 10.3 percent from July as shutdowns for model changeovers made themselves felt and was 34.5 percent below year-ago levels. Although sales also were well below 1955 levels, they were ahead of output and stocks declined. Un-sold cars in dealers' hands on Labor Day have been estimated at about 500,000, down from a record total of 850,000 in early May and 25 percent under August, 1955.

### Construction Steady

The dollar value of new construction reached record levels in August. The \$4.3 billion total was up 2 percent from July and 1 percent over August of last year. The total of \$28.4 billion for the first eight months of this year compares with \$27.8 billion for the like period last year. Because of a rise in construction costs, however, actual levels of activity may be somewhat lower this year than last.

Private outlays for new construction totaled \$2.8 billion last month, 2 percent under August, 1955. The decline was concentrated in the residential field, where expenditures were about 14 percent under year-ago levels. Private residential outlays during the first eight months of this year were down almost a billion dollars from 1955 levels, but the decline was more than offset by increases in industrial, commercial, and utility construction. Construction expenditures by public authorities were 8 percent above August, 1955, with outlays for highway construction contributing most to the increase.

### Prices Advance

Prices appeared to be moving up again during July and August. The Bureau of Labor Statistics comprehensive index of wholesale prices rose 0.5 percent during August, lifting the index 3.3 percent above its level of a year ago.

The main cause of the rise in August was the continued increase in the wholesale cost of meat products, particularly of pork and beef. A number of commodities

other than foods also moved up in August, among them steel scrap, cement, appliances, and machine tools.

Higher food prices at retail were largely responsible for the 0.7 percent increase in the consumer price index in mid-July, bringing it to a record 117 percent of its 1947-49 average. The rise in the index brought wage increases to about 1.3 million workers, mostly in the auto industry, having contracts tied to the consumer price index.

### Installment Debt Rises Further

Installment debt rose again during July for the fifth straight month, the total now standing at \$29.1 billion. The increase was partially offset by a fall in non-installment debt, so that total consumer credit rose only slightly to \$37.1 billion.

Most of the rise in installment debt is attributable to larger-than-seasonal increases in automobile paper and personal loans. Auto paper outstanding, \$15.2 billion at the end of July, has touched new highs each month since December, 1954. The July increase of \$131 million was, however, appreciably below the 1955 figure of \$477 million. Installment debt in the form of personal loans rose \$60 million during July to a total of almost \$6 billion. The upward movement in this total has been continuous since January, 1954.

### Budget Surplus Expected

If preliminary estimates prove correct, the Federal government should end up with a budget surplus of \$700 million for the current fiscal year ending June 30, 1957. This compares with last year's surplus of \$1.8 billion. Both revenues and expenditures were estimated at about \$4 billion higher than in the original estimates last January, revenues at \$69.8 billion and expenditures at \$69.1 billion.

Larger farm benefits account for more than half of the estimated increase in expenditures, with the rest coming from higher defense costs and greater subsidies of one kind or another. The estimate of increased revenues was brought about by the rising level of business activity which is expected to boost government tax receipts substantially, especially from corporate and individual income taxes. Underlying these estimates is the assumption that business activity will remain at current levels.

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# ILLINOIS BUSINESS REVIEW

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## A Neutral Federal Budget

In the early months of 1956, Congress was widely dubbed with a "do-nothing" label. But by the end of the session, the tally showed that the Senate had passed, in two sessions, more bills than any other Senate in history. Many of these bills were, of course, insignificant. The character of some of the more important ones led some commentators to shift another widely used label from the Administration to Congress, calling it the "give-away" Congress.

### Benefits to Special Groups

This "charge" somewhat exaggerates a fairly consistent pattern of action involving benefits to various specific groups. Increased payments to farmers, liberalization of social security, higher minimum wages, and increased pensions were measures of this character.

Farm legislation included the President's "soil bank" provision, which is estimated to cost \$1 billion in fiscal 1957. The new legislation, together with higher price supports and larger-than-expected crop yields made necessary an upward revision in estimated budget expenditures for agricultural programs of almost \$2.5 billion. What would have been a \$1.5 billion decline on the basis of the original budget estimate last January was thus shifted to a near-billion increase in the Mid-year Review of the Budget in August.

At the last minute, an extensive revision of social security was enacted, providing additional benefits estimated to cost almost a half billion in the first year. Two new features were introduced into the program. For the first time, the 65-year retirement age was modified, to permit payments to women over 62; and a new criterion, disability, was introduced in providing pensions for totally disabled persons over 50. The latter provision was passed against especially strong opposition, including that of the Administration. It was perhaps indicative of how few alternative claims on the generosity of Congress were exerting pressure in this year of high prosperity.

Measures like these appear to have distinct political potential. They are often regarded as vote-getting devices rather than solutions to real problems of the community. However, Washington observers express little agreement on who may have gained votes. Claims and counterclaims appear to have resulted more in public confusion than in advantage for either side.

### Some Inconsistencies

Action in other areas showed less consistency, except that taxes were kept high or increased. Personal tax cuts, although widely contemplated early in the session, were postponed, and corporation income and excise taxes were extended. Some excise taxes were increased to finance the road building program. Tax receipts in fiscal 1957 are expected to increase almost as much as expenditures, reflecting the record levels of income currently being realized.

On the military front, Congress passed an additional appropriation of \$1 billion without any budget request. But it then turned around and decreased the military portion of foreign aid by the same amount over strong Administration protests. Action relating to other aspects of foreign affairs showed an inclination against giving any advantages to foreigners. Participation in the Organization for Trade Cooperation and revision of immigration laws were deferred. A customs revision bill was passed but it fell short of the measure trade advocates desired.

Action on public works proposals was mixed. A road building program was passed, but a school building proposal was killed. A compromise housing measure provided for 35,000 units a year for two years—only a fraction of the number proposed by public housing advocates. The Upper Colorado project was passed, but the Hell's Canyon project was killed. The high level of private construction activity no doubt worked against proposals for Federal public works.

### The Road Program

Spectacular publicity gives the impression that the one big accomplishment of the session was the Federal-Aid Highway Act. This provides for a nationwide super-highway system of some 41,000 miles, linking all major cities, to cost \$25 billion in Federal funds over a 13-year period. Since states are required to carry 10 percent of the cost, the total is estimated at \$27.5 billion. Assistance for other state and local roads will continue on the old basis, using 50 percent Federal funds and 50 percent matching state funds. An allocation of \$2.5 billion in Federal funds has been made for secondary and local roads over the next three years, or a little more per year than all Federal highway expenditures in fiscal 1956.

The program has been blown up through publicity so that it seemingly means all things to all people. It has been variously described as the closest thing to a real solution of traffic problems; the greatest public works program in history; a shot in the arm for the economy; and a model of sound government finance.

One popular fallacy is that the program represents an important economic stimulus for the immediate future. The fact is that taxes have already risen, and since tax withdrawals will exceed expenditures by a considerable margin in fiscal 1957, the initial impact may be moderately deflationary. The total taxes earmarked for the program amount to \$38.5 billion over a 16-year period. This includes some existing taxes related to highway traffic as well as \$15 billion in new taxes. Expenditures are limited to tax receipts. They are not expected to reach the level of receipts for at least three years.

Although the expenditure total is indeed an impressive sum, the period of years covered is unprecedented. The average annual expenditure is therefore only a little over \$2 billion a year, of which almost half is covered by new

(Continued on page 6)



### COFFEE—THE CUP OF CHEER

The United States is by far the world's largest consumer of coffee. Approximately 96 percent of all American families use coffee and over 300 million cups are drunk each day.

Coffee is not grown domestically and the industry in this country is limited to importing, roasting, and processing. Most coffee is purchased by import-jobbers or by large roasters whose representatives sample, grade, and cup-taste it for flavor and aroma before buying. Upon arrival in this country it is processed by the roaster who tests, blends, and roasts the coffee prior to packaging for the final part of its trip to the coffee cup. Illinois, strategically located with reference to the flow of coffee to American consumers, has become established as a major processing state.

#### The Spreading Use of Coffee

The use of coffee dates back into early history. According to an Arabian legend, a goatherd named Kaldi noticed that his goats became unusually frisky after eating the berries of a certain bush. He tried the berries himself, found them tasty, and told the abbot of a nearby monastery about them. The abbot boiled the berries in water and found the resulting brew so exhilarating that he ordered it served to his monks to aid them in staying awake during their nightly prayers, thus initiating the "coffee-break."

It is believed that the coffee plant is native to Abyssinia but the first written mention of coffee was made in A.D. 900 by an Arabian physician who prescribed its use as a drug. Although the early medicinal history of coffee is obscure, it was used in medieval times in treating a variety of ailments.

Coffee berries were at first eaten as food. However, coffee eventually evolved into a beverage prepared by boiling roasted beans in water. It is believed that the Arabs first roasted coffee merely as a means of killing the bean's germinating power in an effort to protect their monopoly. Whatever the reason, coffee became increasingly popular as a beverage only after roasting and grinding were adopted as the method of preparation.

In 1554 Constantinople became the first European capital to institute a coffee house, or "cafe." They gradually grew in popularity and were soon situated all over Europe and England. These houses became popular as meeting places and were centers of news, politics, literature, art, and music.

#### Producers and Exporters

Until the early eighteenth century the world's supply of coffee beans came entirely from Yemen in southern Arabia. Subsequently, coffee plants were successfully introduced into Java, the West Indies, and Latin America. The first coffee plant in Brazil was grown by a Franciscan monk in the garden of a monastery at Rio de Janeiro. Today, the great coffee plantations of Brazil produce about one-half of the world's coffee supply.

There are 25 different species of coffee, but only three are of commercial importance. The most important, which accounts for more than 80 percent of all coffee consumed, is that prevalent in Latin America. This variety grows on trees, which range from 8 to 15 feet in height, in the form of dark red fruit called "cherries." Ordinarily, each cherry contains two beans and the average coffee tree yields 2,000 cherries a year—about enough to make a pound of roasted coffee.

The harvesting and processing of the coffee crop is difficult and time-consuming. The cherries are usually picked by hand and transported to a processing plant where the outer layer is stripped off. The beans are then spread out to dry for two or three weeks. The next step is the removal of the parchment coating and the silver skin of the bean, usually by milling machines. The beans are then graded and inspected, and finally packed in bags. They are now ready for export.

In international trade, coffee is second in value only to petroleum products and is the most valuable import of the United States. The coffee dollar is therefore basic to the prosperity of Latin America and coffee is sometimes referred to as the "currency of the Americas."

#### The Roasting and Packing Industry

In 1955 the United States imported 19.7 million bags of coffee with a retail value of \$2.5 billion, according to the Pan-American Coffee Bureau. There has been a leveling off in American consumption from the 1949 high of 22 million bags but the increased use of coffee in Europe has aided in maintaining world demand and high prices. In all, there are approximately 1,500 firms in the United States engaged in the importing, roasting, or processing of coffee. There has been a distinct trend in recent years toward fewer but larger roasting establishments, and today there are 850 roasters as compared with 1,000 twenty years ago. The larger roasters generally buy their coffee direct from the country of origin and therefore by-pass import-jobbers and brokers. The five largest roasters do nearly 40 percent of the roasting business and the 60 largest account for 80 percent.

Instant coffee has greatly increased its sales in recent years and is estimated to be a \$400 million industry in itself. About 170 different brands produced by 11 different companies are currently on the market. Five companies produce their own brands and the remaining six produce instant coffee for the private-label trade. *Super Market News* estimates that instant coffee may eventually claim 50 percent of the entire coffee market.

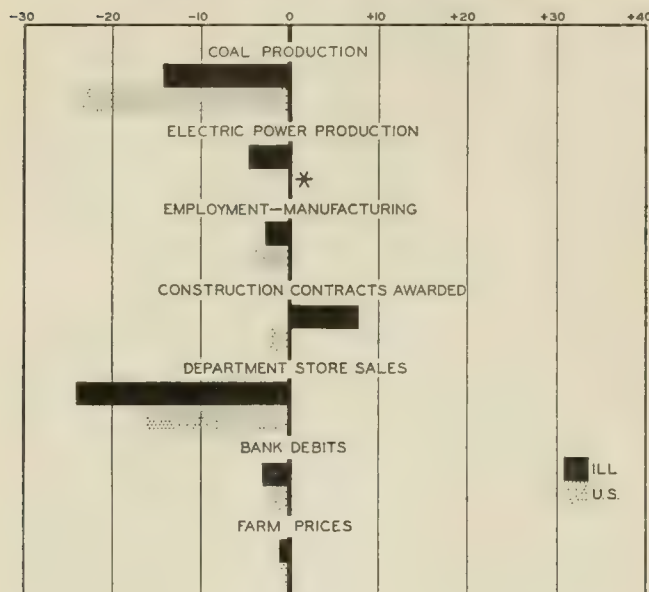
The number of coffee roasters and packers in Illinois has decreased from 50 to 15 during the past 35 years. However, several large and well-known firms are located within the State. Such companies as Coffee Corporation of America, Continental Coffee, Jewel Tea, McLaughlin, National Tea, Nestle, Stewarts Private Blend, and many others have helped Illinois maintain a position of prominence in the coffee roasting and packing industry.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes June, 1956, to July, 1956



\* Less than .05 percent.

## ILLINOIS BUSINESS INDEXES

Item	July 1956 (1947-49 = 100)	Percentage Change from	
		June 1956	July 1955
Electric power <sup>1</sup> .....	201.5	- 4.7	- 3.9
Coal production <sup>2</sup> .....	62.2	-14.2	+ 3.7
Employment—manufacturing <sup>3</sup> .....	104.7	- 2.8	+ 0.1
Weekly earnings—manufacturing <sup>3</sup> .....	149.3 <sup>a</sup>	+ 0.3	+ 4.2
Dept. store sales in Chicago <sup>4</sup> .....	118.0 <sup>b</sup>	+ 1.7	+ 2.6
Consumer prices in Chicago <sup>5</sup> .....	120.5	+ 0.8	+ 1.9
Construction contracts awarded <sup>6</sup> .....	278.0	+ 7.7	- 7.4
Bank debits <sup>7</sup> .....	171.8	- 3.0	+13.2
Farm prices <sup>8</sup> .....	80.0	- 1.1	0.0
Life insurance sales (ordinary) <sup>9</sup> .....	218.8	+ 0.2	+17.0
Petroleum production <sup>10</sup> .....	130.6	+ 4.3	+ 2.7

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.

<sup>a</sup> June data; comparisons relate to May, 1956, and June, 1955. <sup>b</sup> Seasonally adjusted.

## UNITED STATES MONTHLY INDEXES

Item	July 1956	Percentage Change from	
		June 1956	July 1955
	Annual rate in billion \$		
Personal income <sup>1</sup> .....	324.5 <sup>a</sup>	- 0.1	+ 4.1
Manufacturing <sup>1</sup> .....			
Sales.....	313.2 <sup>a</sup>	- 5.8	- 2.2
Inventories.....	49.1 <sup>a, b</sup>	0.0	+11.8
New construction activity <sup>1</sup> .....			
Private residential.....	16.8	+ 2.5	-12.2
Private nonresidential.....	18.2	+11.0	+19.4
Total public.....	16.7	+ 8.9	+13.8
Foreign trade <sup>1</sup> .....			
Merchandise exports.....	20.2 <sup>c</sup>	- 0.7	+28.0
Merchandise imports.....	12.4 <sup>c</sup>	- 5.3	+10.2
Excess of exports.....	7.9 <sup>c</sup>	+ 7.4	+71.6
Consumer credit outstanding <sup>2</sup> .....			
Total credit.....	37.1 <sup>b</sup>	+ 0.1	+12.9
Installment credit.....	29.1 <sup>b</sup>	+ 0.7	+14.2
Business loans <sup>2</sup> .....	28.6 <sup>b</sup>	- 0.8	+21.7
Cash farm income <sup>3</sup> .....	24.9 <sup>c</sup>	+ 2.7	+ 3.0
	Indexes (1947-49 =100)		
Industrial production <sup>2</sup> .....			
Combined index.....	136 <sup>a</sup>	- 3.5	- 2.2
Durable manufactures.....	149 <sup>a</sup>	- 5.1	- 3.9
Nondurable manufactures.....	127 <sup>a</sup>	- 0.8	+ 0.8
Minerals.....	122 <sup>a</sup>	- 5.4	+ 1.7
Manufacturing employment <sup>4</sup> .....			
Production workers.....	103 <sup>a</sup>	- 3.0	- 2.8
Factory worker earnings <sup>4</sup> .....			
Average hours worked.....	101	0.0	- 0.7
Average hourly earnings.....	147	- 0.5	+ 3.7
Average weekly earnings.....	148	- 0.5	+ 2.9
Construction contracts awarded <sup>5</sup> .....	281	- 2.2	- 5.4
Department store sales <sup>2</sup> .....	126 <sup>a</sup>	+ 1.6	+ 1.6
Consumers' price index <sup>4</sup> .....	117	+ 0.7	+ 2.0
Wholesale prices <sup>4</sup> .....			
All commodities.....	114	- 0.2	+ 3.2
Farm products.....	90	- 1.2	+ 0.7
Foods.....	102	- 0.1	- 0.9
Other.....	121	- 0.2	+ 4.1
Farm prices <sup>3</sup> .....			
Received by farmers.....	90	- 1.1	+ 3.4
Paid by farmers.....	115	+ 0.9	+ 2.7
Parity ratio.....	85 <sup>d</sup>	- 1.2	+ 1.2

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp. <sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for June, 1956; comparisons relate to May, 1956, and June, 1955. <sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1956					1955
	Aug. 25	Aug. 18	Aug. 11	Aug. 4	July 28	Aug. 27
Production:						
Bituminous coal (daily avg.).....thous. of short tons	1,658	1,647	1,583	1,540	1,505	1,607
Electric power by utilities.....mil. of kw-hr.	11,340	11,794	11,530	11,190	11,295	10,906
Motor vehicles (Wards).....number in thous.	88	120	128	132	133	150
Petroleum (daily avg.).....thous. bbl.	7,127	7,122	7,086	7,065	7,086	6,685
Steel.....1947-49 = 100	137	125	82	24	24	127
Freight carloadings.....thous. of cars	770	770	715	660	650	792
Department store sales.....1947-49 = 100	120	111	107	104	97	111
Commodity prices, wholesale:						
All commodities.....1947-49 = 100	114.6	114.5	114.2	114.2	114.1	110.9 <sup>a</sup>
Other than farm products and foods.....1947-49 = 100	122.3	122.2	121.9	121.5	121.4	117.5 <sup>a</sup>
22 commodities.....1947-49 = 100	90.9	90.9	90.6	89.4	88.6	89.2
Finance:						
Business loans.....mil. of dol.	29,182	29,029	28,727	28,734	28,623	24,050
Failures, industrial and commercial.....number	215	289	229	282	274	180

Source: Survey of Current Business, Weekly Supplements.

<sup>a</sup> Monthly index for August, 1955.



# RECENT ECONOMIC CHANGES

## State Income Payments

Personal income in the United States rose 7 percent last year to \$303 billion. The advance was widely shared throughout the country, with income in 43 states and the District of Columbia at new records. In other states, reduced farm income kept income below previous highs or resulted in declines. Without exception nonfarm income was at a new high in every state.

Per capita incomes for the United States as a whole rose 5 percent to \$1,847. At the top of the list was Delaware with per capita income of \$2,513, followed by Connecticut, Nevada, the District of Columbia, New Jersey, California, New York, and Illinois, with incomes over \$2,250. At the other end of the scale were Alabama, Arkansas, Mississippi, North and South Carolina, and South Dakota, where incomes per person were under \$1,250.

## Prices Important in GNP Change

Gross national product moved up \$5 billion in the second quarter to a seasonally adjusted annual rate of \$408 billion. The increase compares with a \$1.5 billion rise in the first quarter and a \$9.4 billion advance in the second quarter of 1955. This year, however, in contrast to last, advancing prices have been much more significant in the movement of GNP. In the second quarter, consumer prices increased 1 percent, with food prices up 2 percent; industrial prices have continued upward, although at a somewhat slower rate than in the second half of 1955. Only about half of the second-quarter change in GNP was due to a real increase in output; the remainder reflects the price changes. A year ago the price averages were still holding steady and prices contributed virtually nothing to the dollar increase in output.

On the whole the steam has been let off the boom in the first half of 1956. Whereas last year the advance

received support from all major sectors of the economy, with the exception of foreign investment, this year movements in the important sectors have been divergent. As shown by the chart, the increase in gross national product from the fourth quarter of 1955 to the second quarter of 1956, at seasonally adjusted annual rates, was less than a third of the increase in the first half of 1955. Consumption, despite reduced purchases of durable goods in 1956, has continued to account for roughly half of the over-all change. But residential construction in the first half of 1956 declined about as much as other construction advanced, and the rate of inventory accumulation, though still high, slacked off considerably from the fourth-quarter rate. Government outlays also contributed considerably less to the advance this year than last. Aside from consumption, the important factors keeping the advance alive in 1956 were record volumes of exports and of private plant and equipment investment.

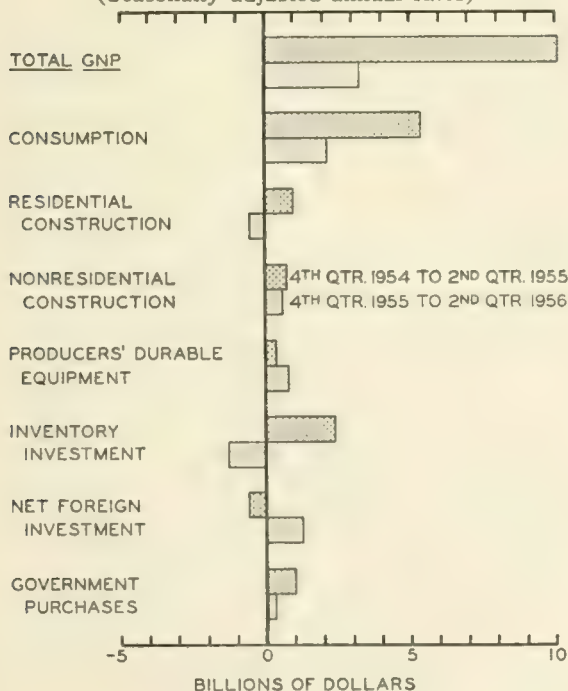
## GROSS NATIONAL PRODUCT OR EXPENDITURE (Seasonally adjusted, billions of dollars at annual rates)

	2nd Qtr. 1956	1st Qtr. 1956	2nd Qtr. 1955
Gross national product.....	408.3	403.4	387.4
Personal consumption.....	263.7	261.7	251.8
Durable goods.....	33.4	34.8	35.3
Nondurable goods.....	132.3	130.5	125.3
Services.....	98.0	96.4	91.2
Domestic investment.....	64.2	63.1	60.2
New construction.....	33.1	32.6	32.9
Producers' durable equipment	27.5	26.4	22.4
Change in business inventories	3.5	4.1	4.9
Nonfarm inventories only..	3.9	4.2	4.5
Foreign investment.....	1.7	.1	-.9
Government purchases.....	78.7	78.5	76.2

## INCOME AND SAVINGS

National income.....	n.a.	334.9	321.9
Personal income.....	322.9	317.5	303.8
Disposable personal income.....	284.9	280.2	268.5
Personal saving.....	21.2	18.6	16.7

## RATES OF CHANGE IN GNP COMPONENTS (Seasonally adjusted annual rates)



Source: U. S. Department of Commerce.

## Security Offerings at Record

The need for funds to finance corporations' current race to build plant and equipment facilities induced firms to go into the capital markets with a record volume of new security issues in the second quarter. Securities offered for cash sale totaled \$3 billion, slightly over the previous high reached in the fourth quarter of 1955. This compares with offerings of \$2.2 billion in the previous quarter and \$2.4 billion in the second quarter last year.

The total volume of new offerings in the first half of 1956 amounted to \$5.2 billion, \$450 million above the first half of 1956. The increase was due to a spurt in offerings of bond issues during the second quarter, intended largely for financing capacity expansion. Equity issues, which were unusually heavy in 1955, were \$200 million under last year's first half in the first half of 1956.

## Foreign Investment Holdings Increased

United States private investment in foreign countries continued at a rapid pace in 1955. Total investment rose by \$2.4 billion to \$29.0 billion at the end of the year. Of the increase, \$1.6 billion represented direct investment in foreign branches and subsidiaries, with about \$600 million of this going into foreign manufacturing concerns, \$500 million into petroleum, and the remainder scattered among other industries. Although the net purchase of foreign securities during the year was small, prices abroad

moved up so that the value of security holdings rose by nearly \$500 million. Short-term deposits and other short-term assets accounted for the remainder of the increase.

Foreign investment in this country increased in value by \$2.8 billion to \$29.5 billion. However, the composition of this change was substantially different from that of American foreign investment. Long-term investment rose by \$1.7 billion, but nearly \$1.2 billion of this increase resulted from appreciation of corporate stocks. The rest of the advance in total foreign investment here represented increased holdings of liquid dollar assets (bank deposits and Government obligations).

## Housing Decline Continues

The number of nonfarm houses started in July held steady at the June volume of slightly over an annual rate of 1 million units (seasonally adjusted). This, however, was 18 percent below July of last year. For the year through July, new starts totaled 662,900 units, off 18 percent from the corresponding 1955 period and slightly below the first seven months of 1954 (see chart).

Indications are for further greater-than-seasonal cutbacks in months to come. Contract awards for residential construction in 37 eastern states, as reported by the Dodge Corporation in July, were 21 percent below July, 1955. Applications for VA and FHA loans have continued downward. In July requests for VA appraisals totaled 34,600, down 16,800 from a year ago, and FHA applications at 16,900 were 7,500 under July, 1956. Of longer-term significance is the fact that homebuilding has run well ahead of family formation in recent years. Between April of 1950 and 1956, the number of nonfarm households formed averaged 976,000 annually, fully 20 percent below the annual average of nonfarm houses started

during the period. Although demolitions have absorbed some of this gap, vacancy rates have been rising—from 1.6 percent of the housing stock in April, 1950, to 2.7 percent in early 1956.

## Employment Still Rising

Employment continued its upward trek in August, rising by 100,000 workers to 66.8 million. At the same time, unemployment dropped, as many teenagers either found jobs or dropped out of the labor force. Census data in thousands of workers are as follows:

	Aug. 1956	July 1956	Aug. 1955
Civilian labor force.....	68,947	69,489	67,726
Employment.....	66,752	66,655	65,488
Agricultural.....	7,265	7,700	7,536
Nonagricultural.....	59,487	58,955	57,952
Unemployment.....	2,195	2,834	2,238

## A Neutral Federal Budget

(Continued from page 2)

taxes. The peak in expenditure expected to be reached around 1960 is \$3 billion. After taking account of the tax offsets, this is hardly a major stimulus to a \$400 billion economy.

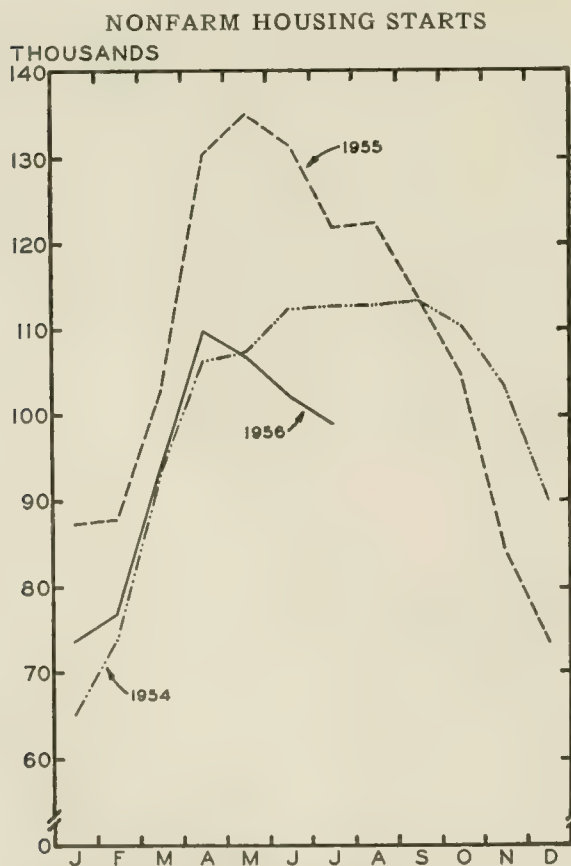
Furthermore, the program is not set up in such a way that the Federal government will build roads that would not otherwise be built. The initiative remains with the states, who decide, subject to Federal approval, where and when roads are to be built. During recent months new road construction has been running at an annual rate of \$5.2 billion, of which about \$4.5 billion is financed out of the state and local funds. Many existing road projects would qualify for Federal aid under the new program; and from the state point of view there is no reason why they should not be shifted into it. To the extent that this occurs, offsets must be reckoned against the level of expenditures nominally achieved by the program.

## Influence of Budget Is Minimal

There can be no doubt that the Federal budget is rising. Increases run all through it on both the expenditure and revenue sides. Expenditure estimates for most agencies are higher in fiscal 1957 than in the year completed last June 30. Some of the increases do not represent changes in real activity; larger deposits to civil service retirement funds and reduced sales of mortgages and Reconstruction Finance Corporation assets are of this character. Other items reflect rising prices rather than more goods and services. Thus, interest charges on the Federal debt are estimated to increase by \$300 million despite some debt reduction.

The economic stimulus involved in these changes is minimal. Increased expenditures partly and increased taxes very largely are following rather than leading the economy. Any contributions toward higher activity from the expenditure side seem likely to be pretty well offset by higher taxes. In the months ahead, therefore, budget changes will probably be much more influenced by than they will influence what happens in the economy.

Some observers see in the budget or in recent government actions a definite advantage for one party or the other in the November elections. The justification for such views is rather weak. The budget appears to be neutral with respect to election as well as to business prospects.



Source: Bureau of Labor Statistics.

VLB



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Industrial Wage Dispersion

How representative is the average wage in an industry? This is the question under study by L. Earl Lewis of the Bureau of Labor Statistics in a recent report published in the July *Monthly Labor Review*. He computed an index of dispersion for each of 31 manufacturing industries, using the range of the middle half of the workers in an industry relative to the median wage. If the index is small, it means that wage earners are grouped close to the median and that the average wage is representative.

The greatest amount of dispersion was found in the full-fashioned-hosiery industry with an index of 62, whereas in the motor vehicle industry the index was only 9. More than half of the indexes fell between 20 and 35, and all but four fell between 15 and 46.

Occupational composition is one factor behind the great differences in industrial wage dispersion. The higher level of skill needed, the greater the dispersion in general. The proportions of men and women workers also accounted for some of the difference, since wages of male workers are usually higher than those of female employees; separate indexes computed for each sex were considerably lower than those for the whole industry, and the dispersion for women was generally smaller than that for men. Geographical distribution of the industry, the extent of unionization, and the extent to which incentive pay, rather than hourly wages, was used also contributed to the differences among industries.

The level of the average wage in an industry, on the other hand, was not a factor of importance. The trend toward higher wages in the postwar period, however, has led to some decrease in the amount of dispersion.

### Record Farm Debt

Farmers continued to borrow heavily during 1955. Mortgage debt rose 10 percent to a total of \$9 billion, and non-real-estate debt grew 8 percent to almost \$8 billion on January 1, 1956, according to the United States Department of Agriculture. It was the tenth consecutive year that mortgage debt rose, and with the exception of 1953, the twelfth for non-mortgage debt. Increased mechanization and improvement and the rising spiral of farm land values are the factors behind the doubling of farm debt in the postwar period.

All major mortgage lenders increased their holdings of farm debt in 1955, with gains ranging from 3 percent for the Farmers Home Administration to 17 percent for the Federal land banks. Non-real-estate loans by the Farmers Home Administration, however, declined by 6 percent during the year. Banks and production credit associations more than made up this drop.

### Household Helpers

The end of floor waxing may be in sight with the introduction of such new products as CLV-300, made by the Eltee Company, Box 173, Burbank, California. It is a liquid vinyl, suitable for use on linoleum or rubber-tiled floors, which covers the floor with a clear film that will not stain or scuff.

An adjustable door frame is an easy answer to the problems of swelling and shrinking doors. Made by Mor-Nu Products Corporation, 125 Thames Street, Bristol,

Rhode Island, the frame may be adjusted with a screw driver.

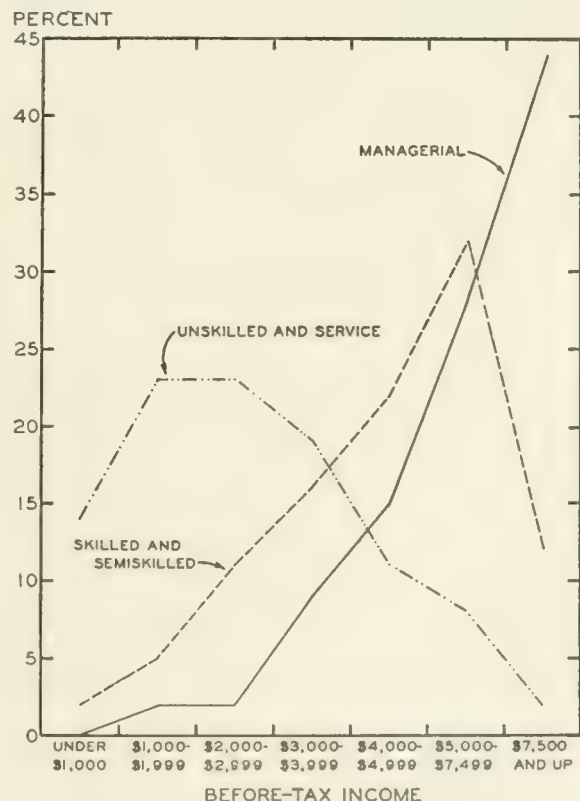
### Income Distribution, 1955

Incomes have continued to move higher, with the expansion felt throughout the income scale. The Federal Reserve Board reported a median income per spending unit of \$3,960 in 1955, up almost 5 percent from 1954.

Most occupational groups had higher incomes in 1955 than in the previous year, but farm operators, self-employed persons, and unskilled and service workers experienced slight declines, according to the Federal Reserve sample. Only in the case of farm operators, however, did more spending units report a drop in income than a rise.

Income distribution in 1955 varied widely by occupational group, as illustrated in the accompanying chart. The professional and self-employed groups showed a pattern similar to that of the managerial units, with the largest portion of their members having incomes in the highest brackets. Skilled and semi-skilled workers, on the other hand, clustered between \$5,000 and \$7,500, but their numbers dwindled sharply above that level. Incomes of clerical and sales workers were distributed like those of the skilled workers, except that they showed a bimodal pattern, with a minor peak between \$3,000 and \$4,000, where many store and other clerks are grouped, and a major peak between \$5,000 and \$7,500, at the level of many commissioned industrial salesmen. The majority of farm operators were concentrated in the lower income brackets, a pattern similar to that of unskilled workers.

INCOME VARIATION BY OCCUPATION, 1955



Source: Federal Reserve Bulletin, June, 1956.

# PARTY PLATFORMS AND ECONOMIC POLICY

PHILLIP MONYPENNY, Associate Professor of Political Science

Both political parties have set forth platforms with seemingly important implications for future action. The Republican platform is relatively general, with much of its length taken up with a "statement of principle" and praise of President Eisenhower as an indispensable leader. The Democratic platform is much longer and contains both a series of attacks on the record of the party in power and a series of rather specific pledges of performance if elected.

Perhaps the most dramatic issues of the present day are those which arise in foreign affairs and in the field of civil rights. These are subordinated in both platforms. Each party acclaims peace without making proposals to deal with the hard choices of a struggle in a divided world, and both urge a peaceful achievement of the aspirations of peoples who have so long been denied them. It is, however, to the economic issues raised by the platforms which this article is addressed, though in time of prosperity these lack immediate drama.

## Platform Pledges

In their platform, the Republicans proclaim prosperity as the result of their policies of encouraging initiative, reducing waste, and balancing the budget. They point to the high level of employment and of income, assert that inflation has been controlled, and assure farmers that Republican policies will restore the health of agriculture by reducing the surplus of storable commodities while leaving the farmer freer from governmental regulation. The platform suggests rather than promises the possibility of tax cuts, given continued prosperity.

The Democrats, in their assault on the Republican record, declare prosperity to be in part a myth, maintaining that there are areas and groups of people who do not share in it, and that farmers in particular have suffered a drastic decline in income. Perhaps the most vehement indictment in the platform, apart from its agricultural and natural resources sections, is of the "hard money" or high-interest policy which is asserted to have increased costs to farmers, small businessmen, consumers, and taxpayers "to the profit of a few moneylenders."

In specific pledges, and apart from these general discussions of economic policy, the Democratic platform is quite rich. The most striking of these pledges, that to expand the national income to \$500 billion a year and raise standards of living by 20 percent, is accompanied by no indication of the means of doing this. On the other hand, some of the pledges, such as that to repeal the Taft-Hartley Act, are clear in the action which they envisage. Promises include tax relief when possible for lower- and middle-income families, an extended system of unemployment compensation with disability payments, expanded public housing, adjustment of interest rates on the national debt, and achievement of 100 percent parity for farm prices, to name a few.

The Republican specifics are not so many but to a remarkable extent parallel the Democratic pledges. Among them are praise of the party's achievement of a balanced budget and promises of first consideration for lower- and middle-income groups in tax reduction, a continuance of subsidized public housing and slum clearance, aid for school construction, Federal action to reinsure privately operated health insurance schemes, and continuance of various aids to farmers.

## Points of Agreement

A comparison of the two programs reveals that although there may be differences of emphasis there is scarcely a difference of doctrine. Both assume free enterprise as the basic condition of the economy. The Republicans claim credit for business expansion because of the confidence that they have created at home and abroad. The Democrats claim that Republican policies have checked economic expansion. Both parties are for aid to small business and both propose vigorous action against monopoly.

Neither platform proposes any sharp break with governmental policies as they have developed in the last half century. Whatever the doctrinaire prophets of free enterprise may preach, protection of the individual is part of the program of both parties. In the welfare proposals there is little difference except for the express Democratic endorsement of disability payments as a part of unemployment compensation, a proposal already in effect in several states. Nor is there any concern by either party about governmental intervention in economic affairs as long as it is confined to taxation, expenditure, and monetary policy and to protection against what are regarded as abuses in such fields as monopoly and labor. It is assumed by both parties that government can and should keep the economy stable.

The positions of both parties with respect to international economic policy seem very close, though there may be a difference of emphasis. Expanded international trade, as accomplished through the reciprocal trade agreements program and GATT, is praised, though the Democrats express some reservations about trade concessions made by a Republican executive. The continuance of military and technical assistance to foreign nations is also endorsed by both parties.

Neither party proposes seriously to change the proportion of the national income which is absorbed by taxation and spent through public rather than through private channels. This means also that the share of the national income devoted to national defense is not challenged by either party, although the Democrats do accuse the Republicans of being governed by budgetary rather than by military considerations in determining the level of spending.

Within this general agreement on economic issues divergent tendencies may be noted. The Democratic platform is more emphatic in its support of governmental grants to individuals whether as part of a social insurance scheme or as part of a farm program. It is more dedicated to direct governmental action in such fields as the exploitation of atomic energy. It endorses the public development of hydroelectric sites and firmly supports the Tennessee Valley Authority power complex, as in its criticism of the Dixon-Yates contract.

The Republican platform makes more mention of local and private initiative and of the indirect achievement of economic objectives, such as the reinsurance of private health insurance and of flood control risks, rather than direct government insurance. Emphasis in the Republican platform is somewhat more on the limitation of government expenditure; in the Democratic platform it is on the achievement of goals which require expenditure. It might be said that the Republican platform lays stress on ex-



pansion by increased private investment, the Democratic on the direct promotion of increased consumption to secure individual well-being.

## How Platforms Are Written

It is well known that the platform of a party is in part a response to various demands made on the party and that it is used as a bait to win the support of various doubtful groups. The Democratic platform, the platform of a party lacking the presidency, probably owes its length to the variety and vehemence of the groups who appeared before the resolutions committee to demand that action be taken. The Republican platform, in contrast, was conditioned by the overwhelming personal popularity of the President and by his views on issues.

The process of platform-making is quite different from the process of legislation, which is the means whereby party promises become action. There are advantages to every petitioning group in getting its ideas accepted in the party platform. The concomitant disadvantages to their opponents are not necessarily as great, paradoxical as that may seem. In the several stages of legislation, the power to obstruct a bill is not necessarily diminished by the previous party commitment.

To illustrate, the elaborate bargaining of Southern representatives on the civil rights provisions of the Democratic platform was largely in vain if they hoped to avoid a repetition of the 1948 and 1952 endorsements. They did avoid a specific pledge of enforcement of the Supreme Court ruling on segregation in public education. But they had to accept a declaration of equal rights which is quite incompatible with the continuance of any sort of legal segregation. Yet no one supposes that the South will bolt on this issue. They can continue their previous course of preventing Senate action, either in committee or on the floor by filibuster.

## The Legislative Process

The business of legislation or even of administrative action is quite different. Here what is done has immediate meaning. To pay Paul is often to rob Peter. The easy pledges of the platform makers are therefore not likely to be redeemed at face value by those who make governmental policy. The Democrats may deplore the Taft-Hartley Act but they are unlikely to have a congressional majority large enough to survive the inevitable defections from their own ranks in any attempt to repeal it. The Republican platform may extol private enterprise but there are not enough Republican members of Congress unconditionally committed to that doctrine to make possible the legislative validation of a new Dixon-Yates contract.

Whatever the position of the President on platform issues, his obligations run to the people who elected him rather than to the platform drafters of his party. Moreover, the overlap of positions, sectional and doctrinal, among the members of both parties in House and Senate is such that no important measure is likely to be adopted without a bipartisan vote. Each party has a group of members who will vote with the opposition if party action is too far from their own positions.

Straight party votes tend to be deliberate demonstrations of a party position in a circumstance in which a party action is not likely to be literally written into law. These include the vote of a single house on an issue on which the other house will most likely be in disagreement; the attempt to override a presidential veto; the recommitment of a bill to a committee. When the action taken

will clearly be embodied in a final policy, such clear-cut positions demonstrating party differences are less likely.

The development of party action to shape governmental policy, whether in Congress or in the executive branch, is most likely to follow the specific political factors which cluster around particular issues rather than to follow the general trend of the platform. The Democratic pledge of price supports at 90 percent of parity is significant both because of the size of the farm vote and because high price supports still have the endorsement of a large and active farm organization. The omission of the Brannan plan from their platform is an indication of the opposition of the two remaining general farm organizations to so explicit a recognition of the dependence of farmers on the government. The split in the farm organizations on high-level price supports gives the Republican platform endorsing flexible supports and surplus disposal its point.

On the particular issues that are the stuff of legislative and administrative action, House and Senate members of both parties are likely to take characteristic positions differing from those of their colleagues and from that of the President. Each member has his own constituency, to which he is more responsive than he is to his party colleagues. Each constituency has its own peculiarities which determine his responses to issues. Each also shares similarities with other constituencies that provide the underlying continuities of political life. Eastern and Western congressmen of both parties, according to the *Congressional Quarterly's* annual tabulations, tend to support the President more often than the Middle Westerners. The people of these constituencies neither hold themselves to strict loyalty to a party nor expect it of their representatives.

The unity of views within a party suggested by a common platform is therefore misleading. It appears that the principles of economic analysis can be applied to party platforms only after the possible consequences of those platforms have been examined in terms of the complex forces critical for legislative action.

## Summary and Conclusion

The broad similarities and the specific differences which the party platforms reveal have a limited significance for future governmental action. The platform-making process and the process of legislative and executive action are essentially different. Therefore the particular views which are expressed, even when markedly different, are very imperfect indications of what consequences may follow from them. The stresses that accompany particular issues sometimes minimize and sometimes exaggerate party differences in action. They make some platform promises quite irrelevant to later action, and other promises quite relevant indeed.

The advocacy of general principles is particularly misleading. A close view of any chain of decisions, such as those in connection with price control during the Korean war, shows that apparently simple general principles, such as holding the average price level to a pre-determined level, quickly become irrelevant in the developing political and economic context. Demands irreconcilable with such principles arise for adjustments to benefit particular groups or to achieve goals which momentarily are of unique importance. It is the process of decision in particular contexts that makes the process of verbal elaboration of explicit statements, such as those of party platforms, largely irrelevant to the making of governmental policy.

# LOCAL ILLINOIS DEVELOPMENTS

Sharp seasonal declines marked Illinois business activity during July. Department store sales dropped 24 percent from June as relief from the hot weather halted a scurry for summer apparel and other goods; on a seasonally adjusted basis, however, sales edged up slightly, continuing a record buying spree begun last fall. Coal production fell off by 14 percent during the month, partly as a result of the steel strike, but it remained ahead of last year's level. Manufacturing employment, electric power production, and bank debits also were down somewhat.

Business loans, on the other hand, began their autumn seasonal rise without the customary spring cutback; they totaled almost 31 percent more than they did in July, 1955. Construction contracts rose 8 percent during the month after a two-month decline; they remained below year-ago levels, however.

## Black Gold Rush

Record drilling continues to develop new sources of oil in Illinois. In the first eight months of this year, 14 new pools were discovered, and almost sixty extensions to existing pools have been made.

The most active drilling has been in east-central Illinois, where five new pools and fourteen extensions have been found. The first producing well in Douglas County was completed less than a year ago, and there are now almost 100 wells. The surge of production was one cause of a petroleum price war in that area.

Production so far this year has run slightly ahead of that in the first eight months of 1956, although the gap in recent months has narrowed. Almost 55 million barrels were pumped through August, 3 percent more than in the same period a year ago.

## Declining Public Aid Rolls

The year 1956 has brought a steady decline in the public aid rolls of Illinois. The drop of 18,000 since February more than erased the rise of last winter, bringing the total number of recipients down to 268,000 persons in June, 3 percent below the level a year earlier.

Most important was the 27 percent drop in participants in the general assistance program, as shown in the accompanying chart. The high level of employment in the State, reaching record amounts in the spring, sharply reduced the number receiving unemployment insurance compensation, the most volatile portion of the general assistance program.

The decline in general assistance was also aided by transfers of children in the Chicago area from that program to the aid to dependent children roll. A change in the eligibility requirements for the latter program has brought a stream of such switches, and the number of dependent children has risen to an all-time high of 99,000.

The effect of these two programs just about canceled each other. However, the old age assistance program declined almost 5 percent, bringing down the total. Liberalization of disability definitions resulted in a 56 percent rise in disability rolls, but the number involved is very small relative to those in the other programs.

## Revenue Rise

The new use tax on out-of-state purchases and the increased sales tax rate were major factors behind the record tax collection of \$516 million during the fiscal year ended June 30, 1956. This was an increase of \$82 million, or almost 20 percent, over the previous year.

Together the sales and use taxes produced 85 percent of the additional revenue. Of the total, \$267 million came from the 2½-cent sales tax, \$60 million more than in fiscal 1955 when it was only 2 cents. The new use tax, also 2½ cents, added more than \$10 million.

Most other taxes were also up. The cigarette, liquor, motor fuel, and public utility taxes rose between 4 and 7 percent each, and the tax on private railroad car lines yielded 2 percent more. Only the tax receipts on coin-operated amusement devices showed a drop, falling by more than 8 percent; however, this is one of the less important taxes.

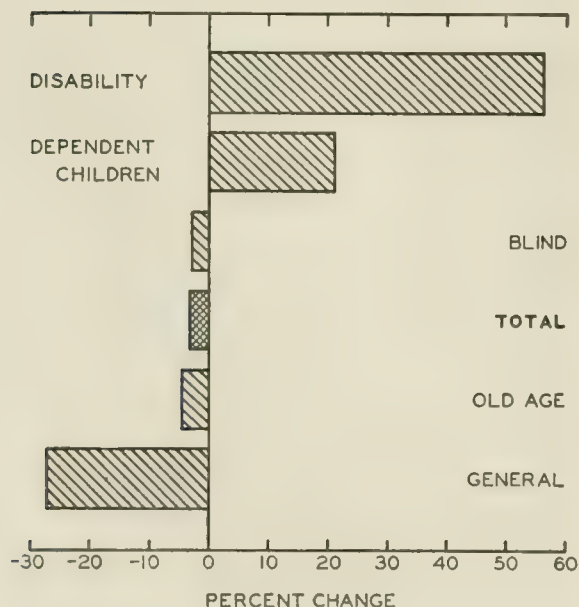
Tax collections during July, 1956, ran 23 percent ahead of those in July a year earlier. The taxes on private car lines and coin-operated amusement devices were the only ones which did not participate in the rise.

## Growth in Heliports Predicted

A tripling of helicopter terminals in the next five years has been predicted for Illinois by the State Aeronautics Director. They are simpler and less costly to build than facilities for regular planes, largely because of the very much smaller take-off and landing space required.

Director Abney also thinks that travel in other types of planes will increase rapidly in Illinois, but at a somewhat lower rate than helicopters. He advises communities to set up airport authorities to take charge of the expansion. State aid will contribute more than \$3 million in the two years ending in June, 1957, to aid 35 local airports under State-local and Federal-State-local programs.

CHANGES IN PUBLIC AID ROLLS  
(June, 1955, to June, 1956)



Source: Illinois Public Aid Commission.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

July, 1956

	Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b> .....	\$40,134 <sup>a</sup>	1,029,469 <sup>a</sup>	\$544,131 <sup>a</sup>		\$15,016 <sup>a</sup>	\$12,283 <sup>a</sup>
Percentage change from.....						
{ June, 1956.....	-2.5	-2.1	-7.3	-24	-3.0	-10.0
{ July, 1955.....	+33.1	+3.6	-2.4	+2	+13.2	+9.5
<b>NORTHERN ILLINOIS</b>						
<b>Chicago</b> .....	\$27,181	767,854	\$399,083		\$13,740	\$10,728
Percentage change from.....						
{ June, 1956.....	-9.5	-2.7	-7.7	-24	-2.6	-9.5
{ July, 1955.....	+48.8	+2.2	-0.3	+2	+13.8	+10.1
<b>Aurora</b> .....	\$ 999	n.a.	\$ 8,029		\$ 60	\$ 127
Percentage change from.....						
{ June, 1956.....	-7.2		-3.5	-28	-11.0	+0.5
{ July, 1955.....	+97.8		-4.9	+1	+10.3	+21.7
<b>Elgin</b> .....	\$ 279	n.a.	\$ 5,570		\$ 40	\$ 59 <sup>b</sup>
Percentage change from.....						
{ June, 1956.....	-13.6		-8.7	-23	-0.7	n.a.
{ July, 1955.....	-45.9		-7.4	+3	+11.5	n.a.
<b>Joliet</b> .....	\$ 752	n.a.	\$11,567		\$ 75	\$ 84
Percentage change from.....						
{ June, 1956.....	-48.8		-9.6	-26	-8.9	-5.7
{ July, 1955.....	-21.2		-7.2	-1	+9.6	+18.8
<b>Kankakee</b> .....	\$ 292	n.a.	\$ 4,792		n.a.	\$ 44
Percentage change from.....						
{ June, 1956.....	+86.0		-7.2	n.a.		+4.6
{ July, 1955.....	+37.7		-21.5			+29.1
<b>Rock Island-Moline</b> .....	\$4,907	20,705	\$ 9,406		\$ 95 <sup>c</sup>	\$ 109
Percentage change from.....						
{ June, 1956.....	+67.5	-8.2	-5.0	n.a.	-8.9	-21.9
{ July, 1955.....	+590.2	-9.2	-9.2		+5.9	-8.0
<b>Rockford</b> .....	\$1,753	37,737	\$18,544		\$ 171	\$ 181
Percentage change from.....						
{ June, 1956.....	+45.0	-7.1	-4.4	-35 <sup>d</sup>	-5.9	-4.6
{ July, 1955.....	+8.3	+10.4	+1.0	+10 <sup>d</sup>	+5.0	+9.2
<b>CENTRAL ILLINOIS</b>						
<b>Bloomington</b> .....	\$ 154	7,688	\$ 5,193		\$ 59	\$ 94
Percentage change from.....						
{ June, 1956.....	-24.5	-3.9	-4.6	n.a.	-13.2	-13.8
{ July, 1955.....	-24.1	+10.3	-8.3		-1.9	+23.4
<b>Champaign-Urbana</b> .....	\$ 509	10,639	\$ 7,350		\$ 63	\$ 72 <sup>b</sup>
Percentage change from.....						
{ June, 1956.....	+37.6	+4.6	-5.8	n.a.	-5.9	n.a.
{ July, 1955.....	-10.2	+12.3	-7.2		+1.9	n.a.
<b>Danville</b> .....	\$ 318	11,367	\$ 5,850		\$ 50	\$ 53
Percentage change from.....						
{ June, 1956.....	-2.8	+8.5	-7.5	-13	-9.4	-15.1
{ July, 1955.....	+2.9	+3.6	-10.6	-6	-4.6	-4.5
<b>Decatur</b> .....	\$1,386	32,251	\$11,585		\$ 109	\$ 96
Percentage change from.....						
{ June, 1956.....	+28.7	+1.2	-4.5	-17 <sup>d</sup>	-7.2	-22.6
{ July, 1955.....	-49.3	+9.8	-2.2	-7 <sup>d</sup>	-4.1	+11.2
<b>Galesburg</b> .....	\$ 310	8,271	\$ 3,972		n.a.	\$ 31
Percentage change from.....						
{ June, 1956.....	-46.5	+3.2	-10.2	n.a.		-15.6
{ July, 1955.....	-0.6	+8.4	-12.6			+5.9
<b>Peoria</b> .....	\$ 366	51,246 <sup>d</sup>	\$17,333		\$ 222	\$ 205
Percentage change from.....						
{ June, 1956.....	-8.7	-7.4	-5.2	-25 <sup>d</sup>	-5.9	-22.6
{ July, 1955.....	-75.4	+9.4	-8.8	-1 <sup>d</sup>	+9.8	+5.4
<b>Quincy</b> .....	\$ 290	8,744	\$ 4,917		\$ 40	\$ 53
Percentage change from.....						
{ June, 1956.....	-30.1	-6.9	-3.5	-17	-1.7	-1.2
{ July, 1955.....	-62.2	+6.4	-8.3	-10	+5.3	-5.6
<b>Springfield</b> .....	\$ 214	36,453 <sup>d</sup>	\$13,183		\$ 117	\$ 196
Percentage change from.....						
{ June, 1956.....	+32.9	+8.4	-3.6	0 <sup>d</sup>	-1.3	-17.4
{ July, 1955.....	-47.3	+5.1	-6.8	-7 <sup>d</sup>	+12.0	-10.9
<b>SOUTHERN ILLINOIS</b>						
<b>East St. Louis</b> .....	\$ 91	8,182	\$ 8,764		\$ 138	\$ 79
Percentage change from.....						
{ June, 1956.....	-29.5	+15.3	-8.0	n.a.	+3.9	+49.9
{ July, 1955.....	-69.5	+21.0	-14.6		+21.5	+16.2
<b>Alton</b> .....	\$ 238	14,582	\$ 4,734		\$ 37	\$ 27
Percentage change from.....						
{ June, 1956.....	+18.9	-0.5	-11.9	n.a.	-17.6	-12.6
{ July, 1955.....	+56.6	+6.8	-13.0		-1.8	-6.2
<b>Belleville</b> .....	\$ 95	13,749	\$ 4,260		n.a.	\$ 46
Percentage change from.....						
{ June, 1956.....	-16.7	+22.3	-5.2	n.a.		+12.5
{ July, 1955.....	-29.1	+27.1	-12.1			+20.3

<sup>a</sup> Total for cities listed. <sup>b</sup> Four-week accounting period ending July 27, 1956. <sup>c</sup> Includes East Moline. <sup>d</sup> Includes immediately surrounding territory. n.a. Not available.

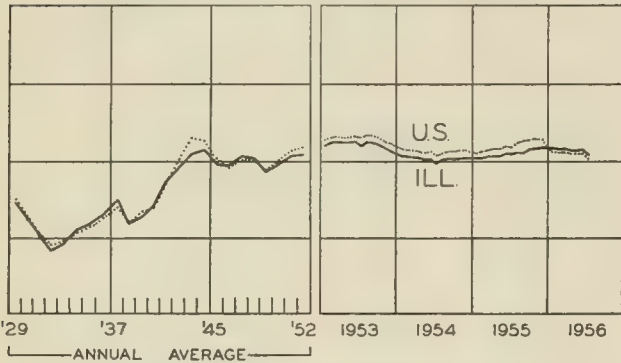
Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Illinois Department of Revenue. Data are for April, 1956, the most recent available. Comparisons relate to March, 1956, and April, 1955.

<sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports.

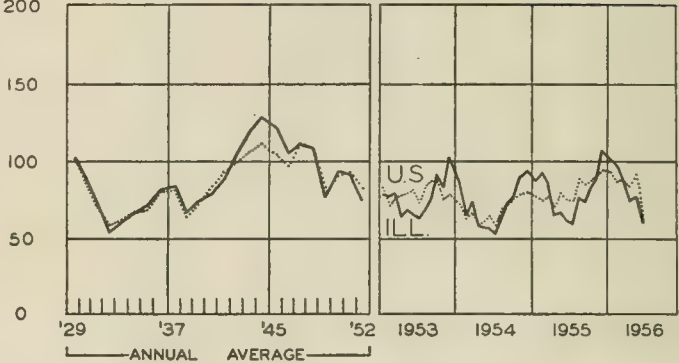
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

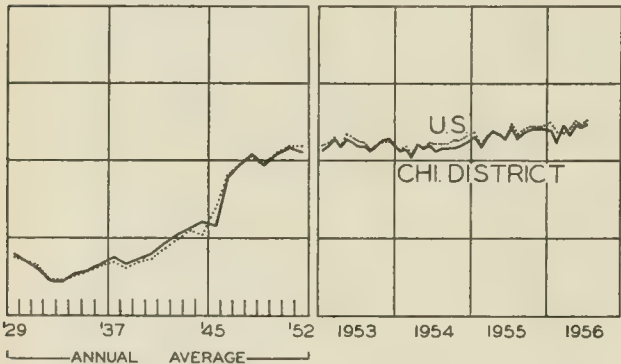
EMPLOYMENT-MANUFACTURING



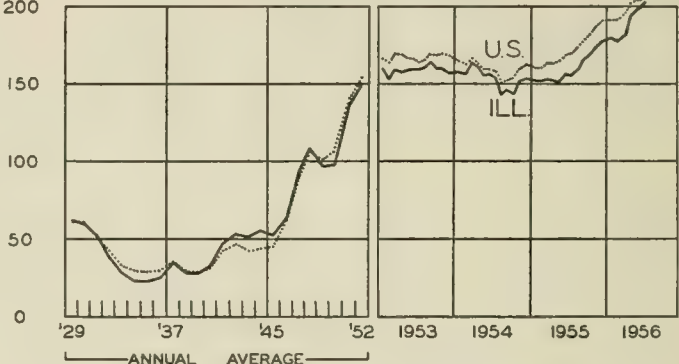
COAL PRODUCTION



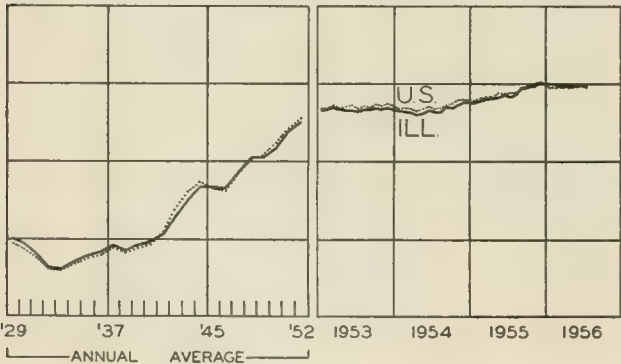
DEPARTMENT STORE SALES



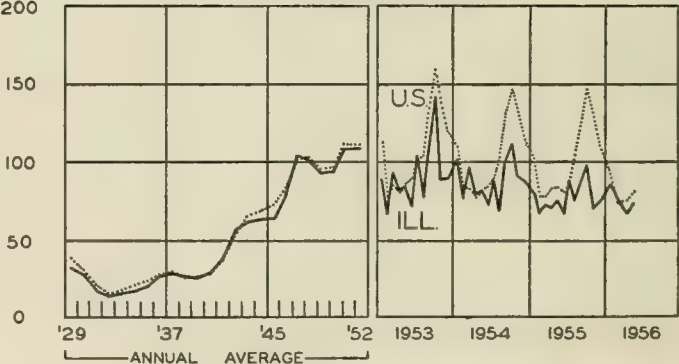
BUSINESS LOANS



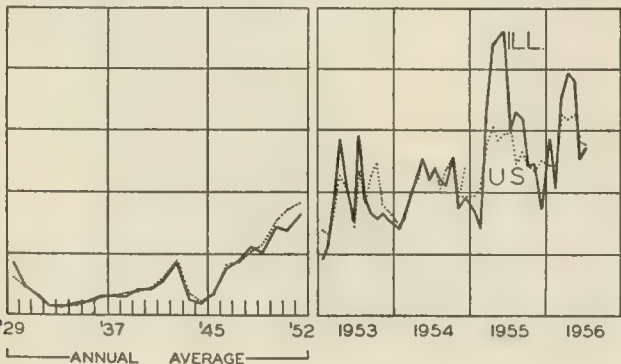
AVG. WKLY. EARNINGS — MANUFACTURING



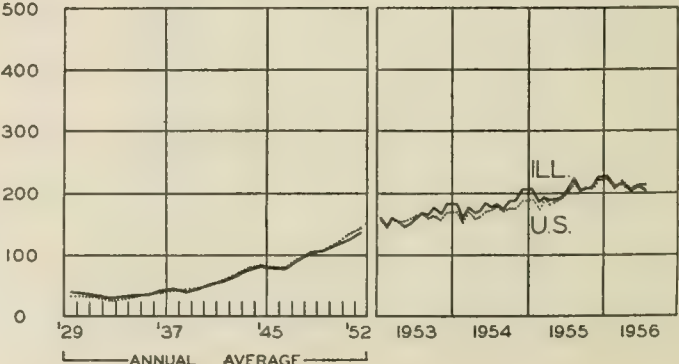
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
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## HIGHLIGHTS OF BUSINESS IN SEPTEMBER

Production of steel and autos represented two extremes in activity during September as over-all industrial output continued at a high level. Steel output ran above rated capacity throughout the month as heavy construction and other business investment requirements remained high, but production of automobiles was at the seasonal low of the model changeovers, down 53 percent from the August total and 59 percent from that of September, 1955.

Stock prices declined throughout the month, the Dow-Jones average for industrials falling from a high of 513 on September 5 to a low of 474 on September 28. Election uncertainties, the Suez crisis, tightness in the money market, and a decline in the rate of increase in profits were offered as possible explanations of the decline.

### Interest Rates Rise

Short-term interest rates continued their upward trend in September as the money market tightened further. The Treasury bill rate rose throughout the month, the regular Monday issue rising from 2.736 percent at the first of the month to 2.985 percent toward the end of the month.

Short-term business loans obtained from large New York City banks averaged 4.14 percent interest in September, up .25 from the June average and .66 from that of September, 1955. The rate for the past month was the highest since August, 1932.

### Construction Down

New construction declined in September for the first time since February, falling slightly from the record August level to \$4.3 billion. However, most of the drop was seasonal, and it was considerably smaller than the decline from August to September, 1955. Total construction for the first nine months of 1956 was close to \$32.7 billion, about 2 percent above the same period last year.

Private housing construction for the third quarter was still 10 percent below the record established in the same three months of 1955, the September total holding level with the \$1.4 billion for August. Private industrial building also stayed at the August level, whereas public construction at \$1.4 billion was some \$10 million above the August level. However, the increase in the latter was more than offset by decreases in other types of construction.

### Installment Debt Climbs Still Higher

Consumer obligations on installment contracts rose \$324 million during August to mark the sixth straight new high at \$29.4 billion. Automobile paper accounted for \$153 million of the increase, raising the total in this category to \$15.3 billion.

Noninstallment debt of consumers increased by \$36 million in the month, bringing the total of all consumer debt up to \$37.5 billion at the end of August, nearly \$3.9 billion above the total of a year ago.

### Inventories and Sales Rise Further

The book value of manufacturing and trade inventories rose slightly on a seasonally adjusted basis from \$85.8 billion at the end of July to \$86.0 billion at the end of August; monthly sales on the same basis rose from \$52.7 billion to \$54.4 billion. The inventory total at the end of August was \$6.5 billion above the level at the end of August, 1955, whereas sales in August were \$1.5 billion greater than those in August, 1955.

The inventory rise during August was considerably smaller than the average monthly increase of \$500 million during the first seven months of the year, but the ratio of inventories to sales remained above that for August, 1955. Most of the increase in inventories occurred in stocks held by nondurable goods manufacturers, but most of the sales rise was experienced by manufacturers of durable goods.

### Personal Income Up

Personal income in August reached a seasonally adjusted annual rate of \$328.2 billion, about \$4 billion above the rate for July and nearly \$20 billion above that for August, 1955. Wage and salary payments accounted for about four-fifths of the August increase.

The rate for the first eight months of the year averaged \$322 billion, 7 percent more than the \$302 billion annual rate for the corresponding period in 1955.

Wage and salary payments have risen more rapidly in nonmanufacturing industries than in manufacturing so far this year. By the end of August manufacturing payrolls were up 2 percent from the first of the year, whereas other payrolls were up 6 percent.

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## Paying for Credit Expansion

Credit expansion has played a role of major importance in the business advance of the last two years. All classes of borrowers except the Federal government have been increasing their indebtedness rapidly. Despite the "tight money" policy of the Federal Reserve, bank loans increased \$15 billion in the fiscal year ended June 30. Borrowers and lenders alike can point to a "sound" basis for the expansion in rising activity and incomes; and since few doubt the permanence of success, the "soundness" is presumed to be enduring in character.

The effects of recent credit movements on interest rates are brought out in an article in the September issue of the *Federal Reserve Bulletin*. Rates have generally advanced from the 1954 lows, with the sharpest advances being made by short-term rates. Yields on Treasury bills have more than tripled—from less than 1 percent to 3 percent—and other short-term rates have advanced just as much absolutely if not relatively. This sharp advance in short-term rates has practically eliminated the differential from long-term rates. In commenting on these movements, the *Federal Reserve Bulletin* states, "The flexibility of interest rates in recent years and the relationship between short- and long-term rates are more similar to interest rate behavior in this country prior to the 1930's than in the intervening period."

## The Government Securities Market

The upward movement of interest rates was led by short-term governments. Banks have been selling off these securities as a means of expanding customer loans, and this has forced yields up sharply. Since the shift out of governments was concentrated in short-term issues, the long-term rate rose only moderately. In recent months, therefore, there has been a bulge in the yield curve on government securities, with rates on 3-5 year notes and bonds rising above the longer maturities.

Fortunately, prosperity has brought the Federal government high revenues and a surplus of receipts over expenditures. For in this period, hardly anybody has wanted to put funds into its securities. In the short-term market, banks have preferred to lend available funds to business firms and consumers. Corporations increased their holdings as tax liabilities mounted in 1955, but the growing need for funds has put an end to this movement. The long-term market has also been unfavorable. Re-

demptions of savings bonds have consistently exceeded new sales. Institutional investors have preferred the higher yields available on mortgages and corporate securities. Attempts to lengthen maturities on the Federal debt since 1953 have met with little success.

What happens to the borrower who comes into a tight market for new funds is illustrated by the market for municipals. New issues are charged an additional one-half of 1 percent or more over the rate on outstanding issues of similar quality. The pressure of state and local government projects has broken the bounds of their usual market. They have had to obtain funds from investors with little or no interest in tax exemption, and rapid rate advances have put them in the position of losing much if not all of the differential usually enjoyed.

## Corporate Markets Keep Pace

Rates on corporate securities have moved more or less in line with governments. Prime commercial paper has risen all the way up to the rate on high-grade corporate bonds. Both are running about one-half of 1 percent higher than corresponding governments, and the prime bank rate to corporate borrowers has kept pace, running about one-half percent higher still.

Practically all business uses of funds have been rising. The most important demand has been the unprecedented rate of investment in plant and equipment. Working capital needs have also been important. Book values of corporate inventories advanced \$9 billion in fiscal 1956, and trade receivables almost as much. Dividend payments have also been increased, by about 15 percent. On the other side of the picture, profits have held near the peak, and depreciation charges have continued into new high ground. These internal funds were supplemented by heavy borrowing on both long and short term. Nevertheless, the combined sources of funds were inadequate, so that cash balances and other liquid assets had to be drawn upon.

Up to this point, the strain on liquid asset positions has been of little significance, and it probably will not be serious as long as business continues up. However, the loss of liquidity makes business vulnerable to declines in sales and profits. Many corporations are heavily committed for new facilities and operating needs, so that cash positions would deteriorate rapidly with any change in conditions. Complete freedom from setbacks is too much to hope for, and the financial pressures generated by a decline will help to make any readjustment sharp.

## Consumers Go the Limit

The largest single claimant of available funds has been the home buyer. With new mortgage lending at a rate of almost \$2.5 billion per month, mortgage debt outstanding has been rising at an annual rate of about \$16 billion. Of this, only 5 percent was obtained from bank funds.

Interest rates have risen on conventional mortgage loans. The rates on government-guaranteed mortgages are restricted by law, but the restriction is circumvented in part by discounting the face value, either at the time of the original transaction or subsequently upon transfer of the mortgage to a financial institution. Difficulties with this procedure have made for limited availability of funds to home buyers under the government programs, and an increasing proportion of all mortgages issued have been of the conventional type.

Consumers have also been expanding other forms of

(Continued on page 6)



## CORRESPONDENCE EDUCATION

Correspondence education has been used successfully at all educational levels and is part of the regular school systems in countries such as Canada, Australia, and New Zealand. In the United States, however, it is primarily a form of adult education and the subjects offered are mainly cultural, though vocational subjects are available.

There are approximately 380 private correspondence schools as well as 133 colleges and universities which maintain correspondence study departments in the United States. Attending these schools are an estimated 1.5 million people who spend a total of \$70 million a year in tuition payments.

### Development

Correspondence instruction in its modern form originated in 1856, when C. Toussaint and Gustav Langenscheidt founded a school in Berlin to teach languages by correspondence. In 1868 the university extension movement was introduced in England. Though it offered secular instruction by correspondence, it was religious in its association. Its further development was left largely to American initiative.

The first American correspondence school was organized in 1881 by the Chautauqua Institute. The initial program was a course in Hebrew, written by Professor William Rainey Harper, who, in 1891, became the first president of the University of Chicago. The following year he set up the nation's first comprehensive university extension service with a correspondence department as one of its major branches. This venture proved successful and it spread rapidly to other universities and colleges.

Many early attempts were made to commercialize the home-study approach to learning, but the most successful venture was that of Thomas Jefferson Foster, a Pennsylvania magazine editor. In 1891 he organized the Colliery Engineer School of Mines, offering a correspondence course on coal mining. It was an immediate success and many other courses were soon added. In 1901 the school was renamed the International Correspondence School and by 1910 it was offering 480 courses with an annual enrollment of 100,000 students. Today, ICS is the largest correspondence school in the world, employing nearly 2,000 persons in the United States and hundreds more throughout the rest of the world.

By 1925 over 500 private correspondence schools had come into existence. There was nothing to prevent an individual from opening an office, calling it a university, college, or academy, and offering any number of diplomas or degrees ranging from a certificate in crime detection to a Ph.D. in physics. Nearly 80 percent of the correspondence schools were one-man operations. Many provided almost any kind of degree, and one school went so far as to offer 867 courses in liberal arts—more than Harvard University did at the time. In 1926, the National Home Study Council was organized by ICS and several other large correspondence schools. It has helped promote better educational standards, but membership is not compulsory and in 1955 only 50 schools belonged.

### Acceptance and Accreditation

The subject of accreditation has long been a thorn in the side of private correspondence schools—as well as a headache to recognized institutions of higher learning. For all practical purposes correspondence schools may be divided into two separate categories, namely, “proprietary” or non-collegiate schools and “accredited” schools. The former consist of all institutions which, though they may offer course work of recognized value, provide no credit for higher education. Accredited schools are universities or colleges which offer correspondence courses, usually through a university extension division, and are fully accredited by their state and regional accrediting authorities.

Many proprietary schools offer correspondence work leading to a high school diploma, which, in many cases, is acceptable in business and industry as evidence of a high school education. However, such a diploma is not accepted by the various regional accrediting associations, and correspondence school graduates must take a college entrance examination prior to acceptance by an accredited college or university. In addition, many professional licensing bodies, civil service commissions, and various other organizations have restrictions on the recognition of education obtained through correspondence.

### Illinois — Mail-Order Center

Illinois is the foremost seat of correspondence education in the nation, with 85 correspondence schools—74 of them in Chicago—as compared with 57 in New York and 53 in California. Quality as well as quantity is found within the State, for many of the country's most outstanding schools are located here.

The University of Chicago, the first university to offer course work by correspondence, has carried higher education to thousands and its correspondence studies reach every part of the world. It currently offers 150 different courses and enjoys an annual enrollment of 2,400 new students. The University of Illinois at Urbana offers 114 correspondence courses—110 of which give college credit. They range from accounting to theoretical and applied mechanics, with the heaviest enrollment in mathematics, rhetoric, accounting, and education.

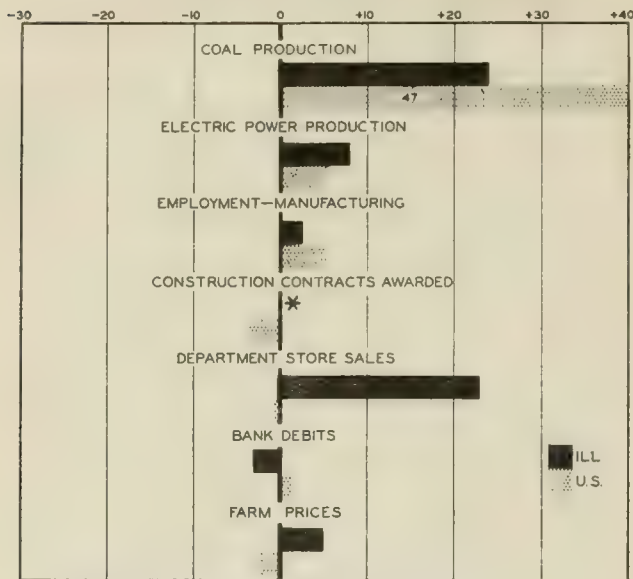
Among the schools specifically offering correspondence instruction are the American School, International Accountants Society, Institute of Applied Science, DeVry Technical Institute, Blackstone School of Law, and La Salle Extension University, to mention only a few. The American School of Chicago, founded in 1897, is second in importance only to ICS. It has a staff of 550 employees and an annual new student enrollment of 55,000, of which 80 percent are adults taking high school courses. Another prominent school is the La Salle Extension University. Founded in 1908, it has become well known for its course work in accounting, and its correspondence law school can boast three governors, seven congressmen, and 50 judges among its graduates.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes July, 1956, to August, 1956



\* Not available.

## ILLINOIS BUSINESS INDEXES

Item	August 1956 (1947-49 =100)	Percentage Change from	
		July 1956	Aug. 1955
Electric power <sup>1</sup> .....	217.5	+ 8.0	- 2.6
Coal production <sup>2</sup> .....	77.2	+24.1	+ 1.1
Employment—manufacturing <sup>3</sup> .....	107.0	+ 2.6	+ 0.8
Weekly earnings—manufacturing <sup>3</sup> .....	146.8 <sup>a</sup>	- 1.6	+ 3.6
Dept. store sales in Chicago <sup>4</sup> .....	119.0 <sup>b</sup>	+ 0.8	+10.2
Consumer prices in Chicago <sup>5</sup> .....	120.0	- 0.4	+ 1.3
Construction contracts awarded <sup>6</sup> .....	n.a.		
Bank debits <sup>7</sup> .....	166.3	- 3.2	+ 6.6
Farm prices <sup>8</sup> .....	84.0	+ 5.0	+ 9.1
Life insurance sales (ordinary) <sup>9</sup> .....	228.2	+ 4.3	+14.0
Petroleum production <sup>10</sup> .....	130.5	- 0.0	+ 1.9

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor; <sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.  
<sup>a</sup> July data; comparisons relate to June, 1956, and July, 1955.  
<sup>b</sup> Seasonally adjusted. n.a. Not available.

## UNITED STATES MONTHLY INDEXES

Item	August 1956	Percentage Change from	
		July 1956	Aug. 1955
Annual rate in billion \$			
Personal income <sup>1</sup> .....	328.2 <sup>a</sup>	+ 1.1	+ 6.3
Manufacturing <sup>1</sup> .....			
Sales.....	330.0 <sup>a</sup>	+ 5.0	+ 1.1
Inventories.....	49.4 <sup>a, b</sup>	+ 0.4	+11.5
New construction activity <sup>1</sup> .....			
Private residential.....	16.8	- 0.6	-11.7
Private nonresidential.....	17.3	+ 1.5	+10.3
Total public.....	17.0	+ 4.0	+ 8.2
Foreign trade <sup>1</sup> .....			
Merchandise exports.....	19.3 <sup>c</sup>	- 4.7	+27.0
Merchandise imports.....	12.6 <sup>c</sup>	+ 1.8	+18.7
Excess of exports.....	6.7 <sup>c</sup>	-14.8	+46.0
Consumer credit outstanding <sup>2</sup> .....			
Total credit.....	37.5 <sup>b</sup>	+ 1.0	+11.5
Installment credit.....	29.4 <sup>b</sup>	+ 1.1	+12.5
Business loans <sup>2</sup> .....	29.2 <sup>b</sup>	+ 1.9	+20.7
Cash farm income <sup>3</sup> .....	30.9	+12.1	+ 0.6
Indexes (1947-49 = 100)			
Industrial production <sup>2</sup> .....			
Combined index.....	141 <sup>a</sup>	+ 3.7	+ 0.7
Durable manufactures.....	159 <sup>a</sup>	+ 7.4	+ 0.6
Nondurable manufactures.....	127 <sup>a</sup>	0.0	+ 1.6
Minerals.....	128 <sup>a</sup>	+ 4.9	+ 5.8
Manufacturing employment <sup>4</sup> .....			
Production workers.....	106	+ 2.8	- 0.4
Factory worker earnings <sup>4</sup> .....			
Average hours worked.....	101	+ 0.8	- 0.7
Average hourly earnings.....	149	+ 0.5	+ 5.3
Average weekly earnings.....	151	+ 1.3	+ 4.5
Construction contracts awarded <sup>5</sup> .....	270	- 3.7	+ 9.2
Department store sales <sup>2</sup> .....	127 <sup>a</sup>	- 0.8	+ 7.6
Consumers' price index <sup>4</sup> .....	117	- 0.2	+ 2.0
Wholesale prices <sup>4</sup> .....			
All commodities.....	115	+ 0.5	+ 3.3
Farm products.....	89	- 1.0	+ 1.1
Foods.....	103	+ 0.4	+ 0.7
Other.....	122	+ 0.8	+ 4.2
Farm prices <sup>3</sup> .....			
Received by farmers.....	88	- 2.2	+ 2.3
Paid by farmers.....	115	0.0	+ 2.7
Parity ratio.....	82 <sup>d</sup>	- 3.5	- 1.2

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for July, 1956; comparisons relate to June, 1956, and July, 1955. <sup>d</sup> Based on official indexes, 1910-14 = 100.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1956					1955
	Sept. 22	Sept. 15	Sept. 8	Sept. 1	Aug. 25	Sept. 24
Production:						
Bituminous coal (daily avg.).....	1,692	1,775	1,746	1,665	1,658	1,586
Electric power by utilities.....	11,482	11,339	10,955	11,565	11,340	10,756
Motor vehicles (Wards).....	50	84	62	77	89	147
Petroleum (daily avg.).....	7,063	7,049	7,037	7,108	7,127	6,671
Steel.....	144	144	141	139	137	135
Freight carloadings.....	822	821	680	784	770	814
Department store sales.....	131	130	112	128	120	121
Commodity prices, wholesale:						
All commodities.....	115.1	115.1	114.8	114.6	114.6	111.7 <sup>a</sup>
Other than farm products and foods.....	122.6	122.6	122.4	122.3	122.3	118.5 <sup>a</sup>
22 commodities.....	91.9	91.2	90.5	90.4	90.9	89.6
Finance:						
Business loans.....	29,694	29,554	29,355	29,168	29,182	24,570
Failures, industrial and commercial.....	262	203	196	237	215	171

Source: Survey of Current Business, Weekly Supplements.

<sup>a</sup> Monthly index for September, 1955.



# RECENT ECONOMIC CHANGES

## Industrial Production

Largely in response to inventory accumulation, many industrial firms have been reducing output this year. In August the Federal Reserve Board's industrial production index recovered from the strike-induced low of 136 (1947-49 = 100) to 141 to equal its level in the two months prior to the strike. However, the index was down about 2 percent from the high reached in December of 1955. The December, 1955, peak has thus far represented the end of the rapid recovery from the low point of the 1954 recession. Between the third quarter of 1954 and December of 1955 industrial production rose by 17 percent.

This year's decline has been shared by producers of nondurable and durable goods. The sharpest cuts occurred in the transportation equipment index, which is heavily weighted by automobile output, and in primary metals, fabricated metal products, textiles, and lumber. These declines have been counterbalanced in part by continued increases in the output of machinery and chemical and petroleum products and by stability in other industries.

## Power Output Stable

Output of electric power has been fairly stable this year in contrast to last year's rapid advance, as shown by the accompanying chart. Electric power production rose seasonally in August, largely because of the growing use of air conditioners in hot weather. In July, power production held steady at the June level, reflecting the shutdown in steel operations.

Aside from the special situation of the steel strike, two major developments in the economic picture in 1956 account for the reduced rate of growth in power output. Most important is the moderate downtrend in industrial production evident since the end of last year. But also

the slowdowns in homebuilding and in sales of power-using household equipment have helped to restrict the rate of growth in use of electric power.

## Machine Tool Ordering Up

Machine-tool builders received a surge of new orders in August as buyers rushed to close deals before announced price increases became effective. The 41 percent increase in orders that occurred between July and August pushed total new orders to \$87 million, their highest since March. For the first eight months of 1956, new orders totaled \$658 million, a third above last year's volume.

Shipments also were a third higher than in the first eight months of last year as producers adjusted capacity to meet the rise in demand that began in the last quarter of 1954. At that time, tool builders had whittled backlogs down to about 3 months' work. With the boom in capital spending this year, backlogs of orders rose to a high of 8.6 months by March. However, with shipments rising sharply, backlogs were reduced to 7.7 months by August.

## Farmers' Equity

Despite the decline in farmers' income and prices received during 1955, their net worth continued to rise. At the beginning of 1956, farm assets were valued at a record \$170.1 billion, an increase of \$3.5 billion over the beginning of 1955. The value of farm real estate increased by \$3.9 billion; and machinery, household furnishings, and financial assets increased by \$1.4 billion. Offsetting these advances was a reduction of \$1.8 billion in the value of livestock and crop inventories.

The principal elements in the rise in the value of farm assets, according to the Department of Agriculture, have been sustained demand by farmers for additional land to enlarge their farms and the widespread opinion that farmland is still a safe and desirable long-term investment. In some regions, urban and industrial expansion into rural areas, demand for farms as residences, and demand for farm land for timber production have also been influential in pushing up land values.

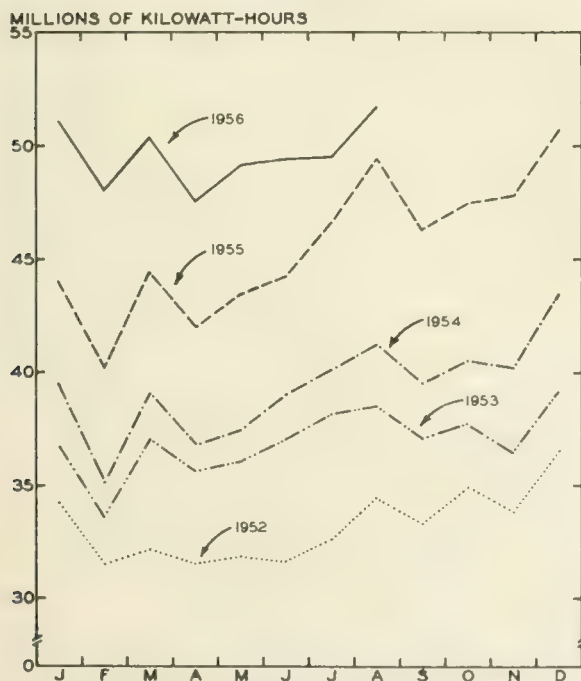
Farm debts increased by slightly over a billion dollars during the year to \$18.8 billion. The biggest part of the increase, \$800 million, was mortgage debt on real estate. An additional \$600 million was added to liabilities in the form of bank loans or credit extended by merchants, dealers, and other businessmen. Outstanding indebtedness to the Commodity Credit Corporation declined by \$300 million during the year. As a result of the greater increase in assets, farmers' equity increased to \$151.3 billion. This compares with \$144.4 billion at the beginning of 1954, the post-Korean low.

## Dividends Rise

Although corporate profits in the first half of 1956 were below the peak annual rate reached in the fourth quarter of last year, dividend payments are still forging ahead. Cash dividend payments in August totaled \$293 million, \$30 million over August, 1955.

For the first eight months as a whole, cash disbursements were 15 percent above 1955. Automobiles and non-ferrous metals recorded the largest relative gains, though practically all manufacturing groups reported increases of 10 to 20 percent. Dividends of mining companies were up 20 percent in the same period.

ELECTRIC POWER PRODUCTION BY UTILITIES



Source: U. S. Department of Commerce

## Employment Off Seasonally

Employment declined seasonally in September, mainly because of the annual exodus of students from the summer labor force. This decline was confined to nonagricultural employment and reduced job levels in virtually all major branches of activity. Nevertheless the total number of jobholders was at an all-time high for the month at 66.1 million workers. Unemployment also declined during the month to slightly less than 2 million, its lowest level since 1953.

Census data in thousands of workers are as follows:

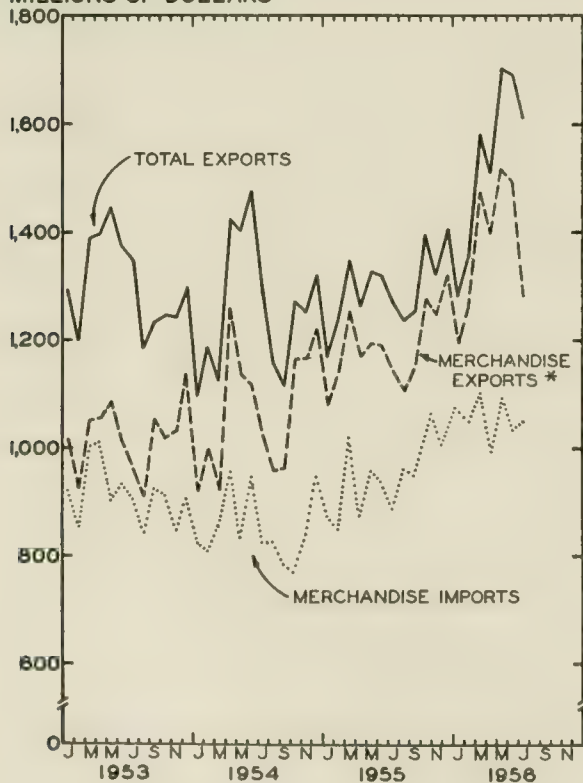
	Sept. 1956	Aug. 1956	Sept. 1955
Civilian labor force.....	68,069	68,947	66,882
Employment.....	66,071	66,752	64,733
Agricultural.....	7,388	7,265	7,875
Nonagricultural.....	58,683	59,487	56,858
Unemployment.....	1,998	2,195	2,149

## Record Foreign Trade

Spurred by world prosperity, American merchandise exports rose steadily between late 1954 and the middle of this year. However, in July, exports, excluding military grant-aid shipments, dropped 14 percent to \$1.3 billion. The decline was in part seasonal, and reflected reduced exports of metals, some manufactured products, textile fibers, and some other farm commodities. Military shipments increased during the month so that the drop in total exports was limited to 5 percent. For the first seven months of 1956 total merchandise exports were 18 percent above the corresponding period of 1955.

Imports were 16 percent higher in the first seven months of this year. As shown by the chart, the increase occurred mainly in the third and fourth quarters of 1955; since then imports have stabilized at a near-record level.

**MERCHANDISE EXPORTS AND IMPORTS**  
MILLIONS OF DOLLARS



\*Excluding grant-aid shipments.

Source: U. S. Department of Commerce.

## Paying for Credit Expansion

(Continued from page 2)

borrowing sharply. New credit extensions to consumers have been running over \$3 billion a month, and repayments have not yet caught up with new borrowing. Total consumer credit outstanding increased by over \$6 billion in 1955, with almost 90 percent taking the form of installment credit. The rate of increase in credit outstanding dropped sharply through the first half of 1956, but rebounded somewhat in the third quarter.

Both these forms of borrowing, on which consumers have been going the limit, are cyclical in character. Mortgage credit is tied to the long cycle in residential construction, consumer credit mainly to the shorter swings in durable goods purchases. In both cases, construction or production of the item purchased necessarily precedes the consumption of its services, which are available over a long period of years. Credit helps to concentrate purchases in periods of prosperity, during which the supportable limits of credit are approached. Then, after the reversal, repayments have a prior claim on income and depress spending for new production.

## Influence of Monetary Policy

Monetary policy aims at moderating the cyclical swings primarily by limiting the excesses of the boom. Prosperity periods in which the Federal budget is running a surplus are those in which the Federal Reserve has the best opportunity to apply restrictive measures. The present situation exemplifies the ideal occasion for such measures, and the Federal Reserve has responded with the present "tight money" policy. This policy shows great restraint in applying the brakes. It has consisted mainly of holding Federal Reserve credit stable in the face of sharply rising demand for funds. Rediscount rates have been raised, but only in line with the forces of the market in bidding up rates on Treasury bills.

Several factors have limited the effectiveness of Federal Reserve policy. The banks had a large volume of government securities which they could use to replenish reserves as loans were expanded. The flow of long-term funds to other institutions, such as insurance companies and savings and loan associations, has been outside the scope of direct action. The continuing rise in time deposits, which are subject to lower reserve requirements, is similar in character. Finally, the bulk of consumer installment credit is extended by a few large companies that are financially strong enough to tap various sources of funds for the purpose of expanding loans to consumers. The boom has therefore progressed almost unchecked.

More drastic restrictions now, after the boom has reached the peak, hardly seem appropriate. Earlier, such action might have been helpful, but it would have taken superhuman wisdom and courage to apply and enforce drastic controls a year ago, before the rise in prices was well under way. Fears that inflation may be permanent are a practical necessity for the application and acceptance of controls, even though such fears may be mistaken. (See the special article in this issue.)

In the literature on business cycle theory, the role of credit has frequently been stressed. The accepted doctrine is that a prolonged period of credit expansion has to be paid for in a subsequent period of liquidation. Many apparently reject this view today, but it may be significant, as the *Federal Reserve Bulletin* points out, that the last time credit conditions resembled those now prevailing was in the late 1920's.

VLB



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Supermarkets

Controlling nearly 60 percent of total grocery volume in the United States at the close of 1955, supermarkets showed substantial gains both in number of outlets and in increased sales by existing stores. Of the estimated 2,260 new stores built in 1955, nearly all were supermarkets. With more floor space on the average, the new stores were built to handle a weekly volume of \$2 to \$3 per square foot of sales area. Types of location for the new stores varied considerably, yet a trend was indicated, according to a report by the Super Market Institute. Fifty-three percent of supermarkets built in 1955 were located in shopping centers and 43 percent were in new shopping centers.

The number of items handled by well-stocked supermarkets has grown from approximately 3,000 in 1946 to about 5,000 at the close of 1955. This growth in number of items stocked has emphasized the problem, among others, of space allocation. A greater share of floor space has been devoted to frozen foods, and self-service meat departments were featured in four out of five new supermarkets. An increasing number of stores also featured pre-packaged fresh fruits and vegetables.

Sales increases in 1955 were accompanied by increasing competition among supermarkets. According to a survey made by *Progressive Grocer*, one-third of the supermarkets gave stamps to customers for purchases in 1955 as compared with 18 percent in 1954. The stamp-using stores reported an average sales gain of 25 percent, whereas non-stamp supermarkets had a 13 percent gain. Factors other than stamp plans may account for a major portion of this difference.

### Trends in Carpeting

The year 1955 was a record breaker for the carpet and rug industry, according to the 1956 edition of *Basic Facts About the Carpet and Rug Industry*, published by the Carpet Institute. Domestic broadloom output reached a new high of 107 million square yards, 25 percent over 1954. Substantial quantities of scatter rugs were also produced and sold.

An important factor in the soft floor covering industry since World War II has been the rapid growth in output of tufted carpets and rugs made possible by the development of the tufting machine in the late 1940's. (See chart.) Prewar tufted carpet production was limited almost entirely to bath mats and sets. By 1955, however, these floor coverings were produced in room-size rugs and wall-to-wall carpeting.

Although little, if any, growth has taken place in the production of woven carpets, there have been changes in the type of woven carpets produced. Axminsters accounted for 32 percent of total woven carpet production in 1955 as compared with 44 percent in 1949. Wiltons and Velvets have increased from 17 and 26 percent, respectively, in 1949 to 22 and 32 percent in 1955.

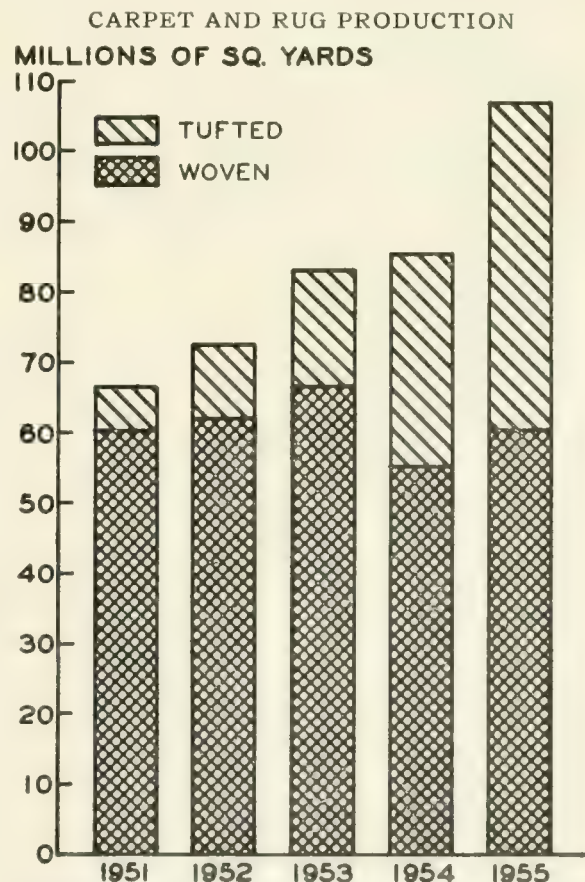
A substantial increase in the use of man-made fibers over the past six years has affected both tufted and woven carpets. Man-made fibers were utilized for 34.6 percent of total estimated carpet production in 1955. All-wool carpeting, still the most important type, accounted for 45.8 percent of the total, with wool blends and cotton making up the remainder.

### News in Merchandising

Competition among retail stores in promotion may be stimulated further by a new series of awards established by the Sales Promotion Division of the National Retail Dry Goods Association, 100 West 31st Street, New York 1, New York. Outstanding promotional campaigns using all the tools of promotion such as advertising, sales personnel competition, and manufacturers' cooperation will be rewarded in this contest. Competing in its own volume group, a store may submit any number of entries before January 31, 1957. Coordinated programs during 1956 such as back-to-school, departmental promotion, and Christmas will be the basis for selecting winning campaigns.

*Merchandising the Smaller Store* is a recently published manual which discusses the phases of small store operation from merchandise budget to transportation. Concentrating on annual volumes under \$2 million, this manual covers not only smaller store systems but also basic merchandising information that might be useful in the various departments of such a store. Copies of this publication can be obtained from Smaller Stores Division, National Retail Dry Goods Association.

Creative merchandising will be the main topic in "What's New in Merchandising," a monthly newsletter appearing for the first time in October. Issued by Harry Singer and Associates, 55 West 11th Street, New York, the publication will circulate to ad agencies and manufacturers.



Source: Carpet Institute, *Basic Facts About the Carpet and Rug Industry*, p. 2

# DOES INFLATION THREATEN?

JOSEPH D. PHILLIPS, Research Associate Professor

For more than a year prices have been rising. During this time, consumer prices have gone up about 2 percent on the average and the more volatile wholesale prices almost 5 percent. This upward movement follows a period of more than three years during which the major indexes maintained a remarkable steadiness. Even during the 1953-54 recession, when industrial production fell 10 percent, the general indexes of wholesale and consumer prices showed little change.

Most of the increase has come since the first of this year (see chart). Consumer prices, which tend to lag behind wholesale prices, did not begin to rise significantly until this spring. On the other hand, wholesale prices of commodities other than farm products and foods began to climb rapidly in July, 1955, forcing the wholesale price index for all commodities irregularly upward despite the decline in prices of farm products and processed foods during the second half of the year. With the upturn in prices of farm products and processed foods that started in January of this year, the wholesale price index began to rise more rapidly. The 6.25 percent August increase in steel prices, anticipated and followed by price hikes in a number of other commodities, has led to widespread speculation about the imminence of inflation.

All accounts of what happens in business cycles describe the typical expansion phase as one in which nearly every principal economic series goes up. The price advances characteristic of this stage of the cycle have not been considered as symptomatic of inflation. Rather, they have been regarded as an inherent aspect of the expansion in business activity.

The performance of the economy since early 1955 has exhibited all the features of this kind of cyclical expansion, following a minor inventory recession. Employment, investment, gross national product, wages, profits, interest rates, and prices have all been going up. Wages, profits, and aggregate income have moved up more rapidly than prices, as have several of the other general business indicators.

## Traditional View of Inflation

Traditionally, inflation has been associated with sharp and continuing increases in prices resulting from large additions to the money supply, usually produced by very large government deficits. Currently the Federal budget is running a surplus. For the two years ending June 30, 1957, Federal receipts from the public may exceed payments to the public by \$8 billion.

The surplus in the Federal budget has been accompanied by a high degree of stability in the money supply. The total of demand deposits (adjusted for interbank and Federal government deposits) and of currency outside the banks increased only \$2 billion, or 1.5 percent, from June, 1955, to June of this year. In this interval the gross national product rose 6 percent, which would indicate a less-than-normal increase in the money supply.

This stability in the money supply reflects in some measure the tight money policy of the Federal Reserve System during most of this period. It is clear that as long as business remains high the FRB will continue to exert its influence to prevent any rapid advance in the means of payment. Although increases in the velocity of circulation of money may serve as a substitute for increases in money supply, past experience indicates that

velocity goes up sharply only when there is a rapid rise in the volume of money.

It is evident that current government budget policy and Federal Reserve action in the money market do not fit the traditional pattern of inflation. However, if the preconditions for the rapid advance in prices customarily implied by inflation are not present, what are the prospects for continuing price increases at the present modest rates? A consideration of the main possible sources of increase should throw some light on this question.

## Consumer Buying Not a Separate Cause

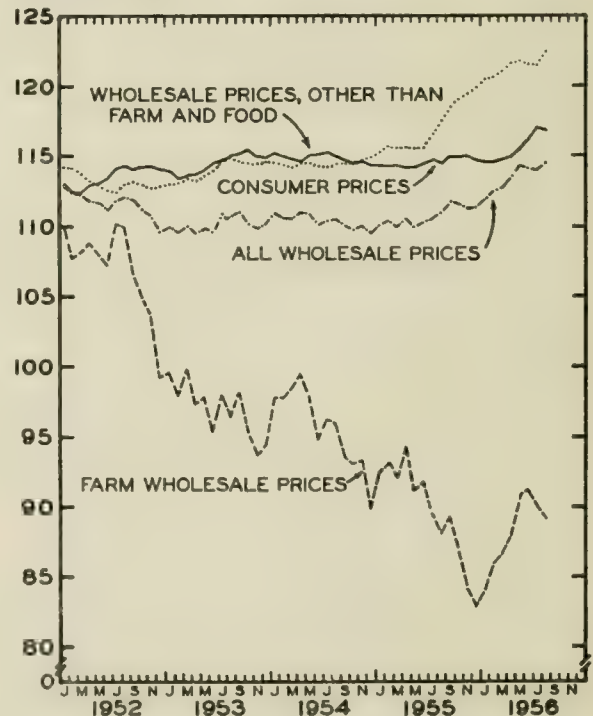
There are no large backlogs of consumer demand as there were at the end of World War II. The increase in liquid assets held by consumers during 1955 went largely into the hands of the higher income groups who give no indication of any general move to use them as supplements to their current purchasing power.

Although a sharp and continuing rise in consumer credit has added to the stream of purchasing power, it seems probable that further increases will meet with greater resistance. With installment and other consumer non-mortgage debt at a record high of \$37.5 billion on August 15, those depending upon this source for part of their purchasing power will find it increasingly difficult to borrow, especially as the money market tightens.

Although the net contribution of consumer credit to total consumer outlays has been somewhat less than 2 percent recently, it has been a more important factor in the sale of consumer durables, accounting for over 13 percent in 1955. Any decrease in the amount of new credit provided will have an adverse effect upon sales in this area. Furthermore, the increase in debt entails

## WHOLESALE AND CONSUMER PRICES

1947-49=100



Source: Bureau of Labor Statistics.



growth in the amounts borrowers are obligated to repay, thus reducing the amount which they subsequently can spend.

Retail sales are still going up, but this is largely in response to the general expansion, not independent of it.

### **The Contribution of Farm Prices**

Prices received by farmers were down 11 points in August from the June level of 247 (1910-14 = 100), but were still 6 percent higher than the recent low of December, 1955. The increase from December through June contributed significantly to the rise in the wholesale price index for all commodities and to a lesser extent to that of the consumer price index. Recent declines in prices of farm products and those that may result from anticipated bumper crops will tend to pull down the general indexes.

The large margin of unutilized productive capacity in this sector of the economy and the large stocks on hand make it unlikely that farm prices could make any sustained advance from current levels. Even if existing surpluses were eliminated, the land taken out of production by the "soil bank" and other acreage restriction programs constitutes a reserve capacity that could be drawn upon to increase output and thereby restrain future price increases.

### **Capital Goods a Prominent Factor**

Throughout the period surveyed, producer goods have experienced the greatest price increases. Wholesale prices of finished producer goods increased by nearly 8 percent in the year ended last June, during which time wholesale prices of finished (non-food) consumer goods rose about 3 percent. In roughly the same period consumer outlays on products other than foods rose less than 2 percent, whereas business outlays for new plant and equipment increased 23 percent. The high rate of private investment in plant and equipment has been the major factor in the greater advance of producer goods prices as it has been in the expansion of business activity generally.

How long will the current high rate of investment in plant and equipment continue? Most business forecasters expect it to carry through the remainder of the year, but they are generally reluctant to commit themselves beyond that time. It appears that productive capacity is adequate now in a number of lines, including autos and other consumer durable industries.

It is interesting to note that industrial production has leveled off in the past year despite large additions to productive capacity. With capacity growing and output stable, pressure on the price level from this source may be eliminated soon. Competitive conditions tend to develop in various industries upon completion of new facilities provided by the current expansion program, and such conditions usually result in downward revisions of investment plans. Increased outlays for new equipment by some producers who may attempt to reduce costs through automation are not likely to make up for cutbacks of investment aimed at expanding capacity.

### **Inventory Buying a Factor**

Prices of industrial materials have varied greatly in their movements during the last year. Some have increased sharply, whereas others have declined. Varying supply conditions account for some of these differences, but swings in purchases of these items for inventory have been important. In a period of active buying for inven-

tory, pressure on existing supplies may become very strong and prices may be bid up rapidly. But when the buying spree is over, downward pressure on the price of the material shows up, in markdowns if not in stated list prices. Copper is a good example of an industrial material whose price was strong last winter but more recently has fallen sharply as stocks have been built up.

Steel, on the other hand, is still feeling the pressure on capacity. Recent increases in steel prices have been viewed as the precipitant of a more general upsurge in prices. In this regard, it should be noted that steel prices had been moving up well before the recent post-strike increase. Between June and July of 1955, the index of iron and steel prices jumped from 136 to 143 and climbed another 7 points through June of this year. During the longer period from January, 1952, to January, 1956, the index rose 26 points. Undoubtedly this increase was a factor in the 12.5 point rise in the index for machinery, but with the offsetting movements of other prices, it had little effect on the over-all price indexes.

These comparisons indicate that the relationship between steel prices and the general price level is not very close. Steel enters many products, but in most cases is only a small fraction of the total cost of the finished product. Even in automobiles it accounts for only 5 to 10 percent of the final price. One auto manufacturer, in announcing a 3 percent increase in the prices of his company's 1957 models, indicated that this would cover cost increases, including, presumably, wages as well as materials prices.

### **Labor No Bottleneck**

There have been several attempts to differentiate the present period from others in which prices rose by describing it as a "cost inflation." Wage increases—the cost advances usually referred to—do not necessarily require price increases if productivity is rising. Many past estimates of the amount of wage increases that could be absorbed without inflation have apparently been based upon underestimates of the potential increase in productivity. It is significant that employment in manufacturing declined from 1953 to 1956 while production was rising. The current wave of capacity expansion undoubtedly will increase productivity greatly.

Furthermore, there appear to be adequate margins available in the labor force to meet anticipated needs. Current unemployment of two million is above the irreducible minimum and accretions to the labor force will continue to be large. Overtime employment has practically been eliminated. In addition, there are still considerable numbers of potential workers not currently in the labor force who could be induced to enter it by the expansion of job opportunities. Output is hardly likely to move up sharply enough from the current plateau to produce any serious bottleneck in the labor supply.

In summary, then, there is little to justify the view that the economy is on the verge of inflation. On the one hand, no large additions to the money supply are in prospect. On the other hand, surplus stocks and growing productive capacity tend to restrain prices in many lines. Most of what has been happening can be regarded as characteristic of the business cycle in periods of high prosperity. Even the recent upward movement in the general price level is unlikely to continue if the level of activity remains as stable as it has so far in 1956. Since the termination of a boom is typically followed by a decline, it is possible that the threat of "deflation" is at least as serious as the threat of further "inflation."

# LOCAL ILLINOIS DEVELOPMENTS

Sharp seasonal rises highlighted Illinois business activity during August. Under pressure of the early harvest, cash farm income soared, with higher prices pushing receipts well above a year ago. Coal production and department store sales increased about one-fourth over their July levels, stimulated by the approach of cool weather. Steel production, on the other hand, was about halved in comparison with June, the last month before the strike, and with August, 1955.

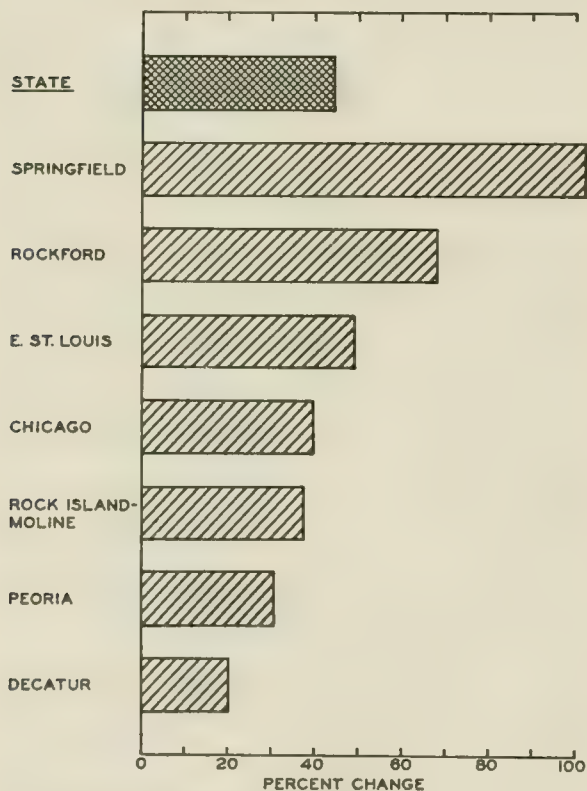
## Industrial Expansion

An increase of 44 percent in value added by manufacture was chalked up by Illinois industry between 1947 and 1954, according to recent data published in the *1954 Census of Manufactures*. The total reached \$9.6 billion in 1954 and all indications are that it has continued to climb.

Payrolls rose in line with output between 1947 and 1954, although employment fell off slightly. The number of establishments also rose, with almost all of the increase in plants employing less than 20 persons.

Nonelectrical machinery continued to be the most important industry in the State, both with regard to the number of employees and value added. Food and kindred products remained in second place, although electrical machinery had all but closed the gap which existed in 1947. The largest gains in value added by manufacture came in transportation equipment, which almost doubled, and instruments, which grew by 66 percent. Apparel and related products was the only industry to add a smaller value to its products in 1954 than it had in 1947.

GROWTH IN VALUE ADDED BY MANUFACTURE,  
1947 to 1954



Source: *1954 Census of Manufactures*.

Almost two-thirds of the increase occurred in the Chicago area. However, the rate of growth in that area was somewhat smaller than that for the State as a whole, as may be seen in the accompanying chart. While Springfield was the only metropolitan area to more than double value added by manufacture, many counties showed increases of several hundred percent. Brown County led the list with value added ten times larger than in 1947.

## Recovery in Coal

After some years of decline Illinois coal production is again on the uptrend. Through much of 1955 and each of the first eight months of 1956 there has been a significant increase over the corresponding month a year earlier. At the current rate of rise over last year, 9 percent, 1956 should total 48 million tons, the largest output since the burst of production during the Korean war.

Williamson and Christian counties continue to vie for first rank, with Williamson County taking the lead in five of the first eight months of this year. In January and February, Christian was also surpassed by Fulton County, the third-place producer.

The rising demand by electric utilities is the chief factor behind the increased tonnage. Increased foreign shipments of United States coal have also augmented demand.

## Leading the Nation

With crop production records falling in every field, Illinois is leading the nation in both corn and soybean output. The current outlook is for 587 million bushels of corn, almost one-sixth of the nation's total. This is about one-sixth more than in Iowa this year and 4 percent more than the previous Illinois high in 1948. The new record is being set despite a cutback in acreage plantings, as yield per acre moves up to a prospective 66 bushels.

The soybean crop is estimated at 136 million bushels, 38 percent over 1955, the previous high. An expected acreage yield of 29 bushels also sets a new record. The second ranking state, Minnesota, is expected to produce less than one-third as much.

Wheat production this year should also reach a new high in the State. The estimate is 58 million bushels. Oats and hay crops are estimated to be above average but below the records.

The position of Illinois in the nation's agriculture has been highlighted by the recent publication of data from the *1954 Census of Agriculture*. In that year Illinois had the three top corn-producing counties, Champaign, Iroquois, and Vermilion in that order, yielding over 3 percent of the nation's total crop. The three top soybean producers were also Illinois counties, McLean, LaSalle, and Livingston. Illinois had a total of 13 of the top 100 counties in total value of production in 1954.

**NOTE:** Owing to a change in Post Office accounting procedure, postal receipts for selected Illinois cities will henceforth be reported on a four-week basis rather than for calendar months. Because the new periods begin with this issue, no changes from previous periods are available, and the change from a year ago will not be published until the completion of the first year.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

August, 1956

		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS.</b>		<b>\$45,163<sup>a</sup></b>	<b>1,080,025<sup>a</sup></b>			<b>\$14,537<sup>a</sup></b>	<b>\$12,223<sup>a</sup></b>
Percentage change from.	July, 1956	+12.5	+4.9		+23	-3.2	
	Aug., 1955	-20.2	+3.1		+11	+6.6	
<b>NORTHERN ILLINOIS</b>							
<b>Chicago</b> .....		<b>\$35,093</b>	<b>806,995</b>			<b>\$13,248</b>	<b>\$10,605</b>
Percentage change from.	July, 1956.	+29.1	+5.1		+23	-3.6	
	Aug., 1955.	-16.1	+3.4		+11	+6.6	
<b>Aurora</b> .....		<b>\$ 705</b>	n.a.			<b>\$ 60</b>	<b>\$ 123</b>
Percentage change from.	July, 1956.	-29.4			+19	-0.0	
	Aug., 1955.	-82.7			+10	+14.7	
<b>Elgin</b> ...		<b>\$ 746</b>	n.a.			<b>\$ 41</b>	<b>\$ 76</b>
Percentage change from.	July, 1956	+167.4			+28	+2.5	
	Aug., 1955	+100.0			+7	+16.5	
<b>Joliet</b> .....		<b>\$ 530</b>	n.a.			<b>\$ 78</b>	<b>\$ 68</b>
Percentage change from.	July, 1956.	-29.5			+26	+2.9	
	Aug., 1955.	+33.8			+12	+13.5	
<b>Kankakee</b> .....		<b>\$ 136</b>	n.a.			n.a.	<b>\$ 38</b>
Percentage change from.	July, 1956.	-53.4			n.a.		
	Aug., 1955.	+88.9					
<b>Rock Island-Moline</b> .....		<b>\$2,041</b>	<b>22,027</b>			<b>\$ 90<sup>b</sup></b>	<b>\$ 140</b>
Percentage change from.	July, 1956	-58.4	+6.4		n.a.	-4.4	
	Aug., 1955	+116.2	-1.9			+5.3	
<b>Rockford</b> .....		<b>\$1,211</b>	<b>41,041</b>			<b>\$ 176</b>	<b>\$ 173</b>
Percentage change from.	July, 1956.	-30.9	+8.8		+10 <sup>c</sup>	+2.9	
	Aug., 1955.	-21.3	+10.9		+14 <sup>c</sup>	+12.6	
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington</b> .....		<b>\$ 297</b>	<b>8,093</b>			<b>\$ 65</b>	<b>\$ 84</b>
Percentage change from.	July, 1956.	+92.9	+5.3		n.a.	+10.5	
	Aug., 1955.	-5.4	+1.3			+8.7	
<b>Champaign-Urbana</b> .....		<b>\$ 621</b>	<b>10,088</b>			<b>\$ 61</b>	<b>\$ 74</b>
Percentage change from.	July, 1956.	+22.0	-5.2		n.a.	-2.4	
	Aug., 1955.	+8.2	-2.1			+2.5	
<b>Danville</b> .....		<b>\$ 191</b>	<b>11,067</b>			<b>\$ 54</b>	<b>\$ 55</b>
Percentage change from.	July, 1956.	-39.9	-2.6		+22	+6.4	
	Aug., 1955.	-50.9	+0.4		+9	+8.4	
<b>Decatur</b> .....		<b>\$ 977</b>	<b>30,873</b>			<b>\$ 106</b>	<b>\$ 111<sup>d</sup></b>
Percentage change from.	July, 1956.	-29.5	-4.3		+24 <sup>c</sup>	-2.4	
	Aug., 1955.	-60.3	-1.8		+13 <sup>c</sup>	-3.7	
<b>Galesburg</b> .....		<b>\$ 337</b>	<b>8,568</b>			n.a.	<b>\$ 26</b>
Percentage change from.	July, 1956.	+8.7	+3.6		n.a.		
	Aug., 1955.	-44.9	+1.2				
<b>Peoria</b> .....		<b>\$ 550</b>	<b>53,956<sup>c</sup></b>			<b>\$ 220</b>	<b>\$ 199</b>
Percentage change from.	July, 1956	+50.3	+5.3		+33 <sup>c</sup>	-0.8	
	Aug., 1955	-50.8	-4.4		+8 <sup>c</sup>	+5.9	
<b>Quincy</b> .....		<b>\$ 197</b>	<b>10,168</b>			<b>\$ 38</b>	<b>\$ 50</b>
Percentage change from.	July, 1956.	-32.1	+16.3		+35	-3.8	
	Aug., 1955.	+0.5	-1.1		+1	-3.3	
<b>Springfield</b> .....		<b>\$ 856</b>	<b>39,132<sup>c</sup></b>			<b>\$ 115</b>	<b>\$ 202</b>
Percentage change from.	July, 1956.	+300.0	+7.3		+25 <sup>c</sup>	-1.6	
	Aug., 1955.	+33.1	+13.0		+9 <sup>c</sup>	+2.9	
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis</b> .....		<b>\$ 109</b>	<b>14,500</b>			<b>\$ 143</b>	<b>\$ 129</b>
Percentage change from.	July, 1956.	+19.8	-0.6		n.a.	+3.4	
	Aug., 1955.	-73.1	-0.3			+9.3	
<b>Alton</b> .....		<b>\$ 235</b>	<b>15,130</b>			<b>\$ 41</b>	<b>\$ 28</b>
Percentage change from.	July, 1956.	-1.3	+10.0		n.a.	+10.2	
	Aug., 1955.	+42.4	+1.8			+7.2	
<b>Belleville</b> .....		<b>\$ 331</b>	<b>8,386</b>			n.a.	<b>\$ 37</b>
Percentage change from.	July, 1956	+248.4	+2.5		n.a.		
	Aug., 1955	-37.9	+4.9				

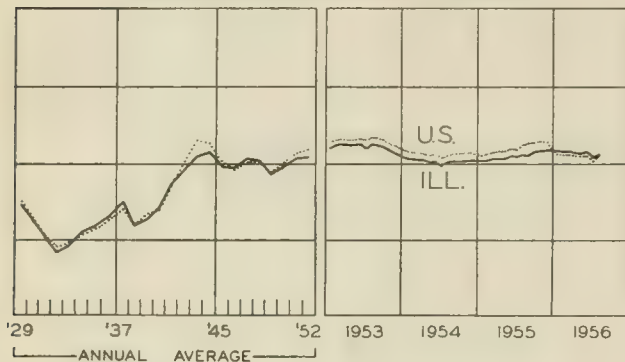
<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. <sup>d</sup> Month of August, 1956.  
n.a. Not available.

Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. Data for May, 1956, are not available. <sup>3</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>4</sup> Local post office reports. Four-week accounting period ending August 24, 1956.

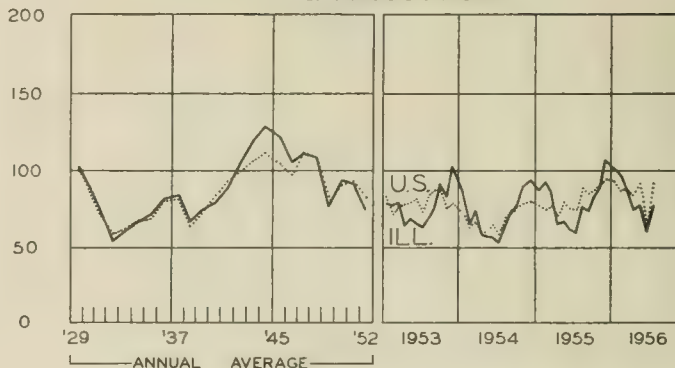
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

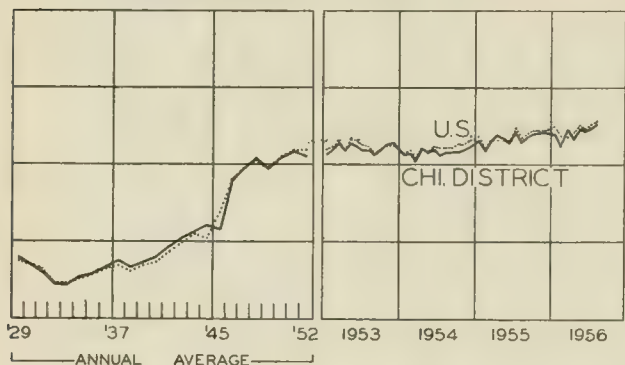
EMPLOYMENT-MANUFACTURING



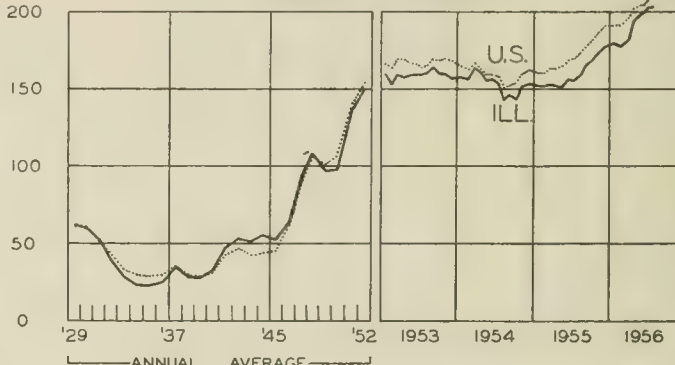
COAL PRODUCTION



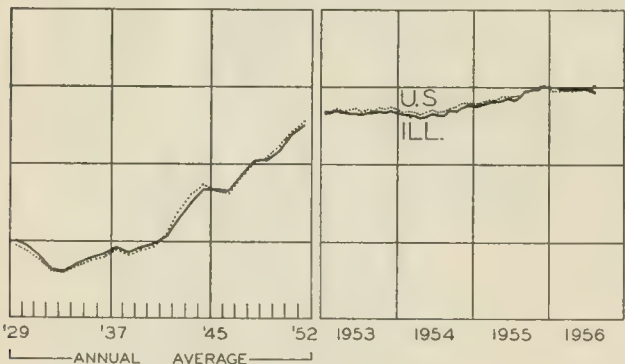
DEPARTMENT STORE SALES



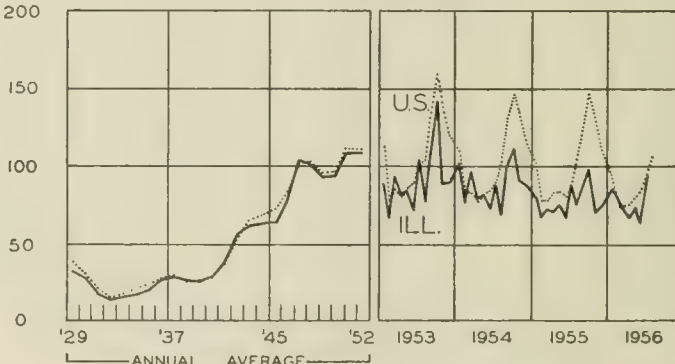
BUSINESS LOANS



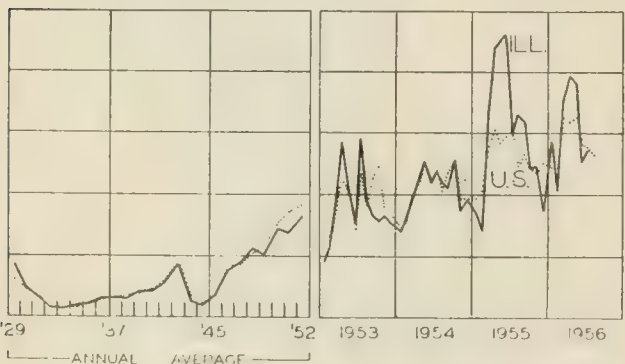
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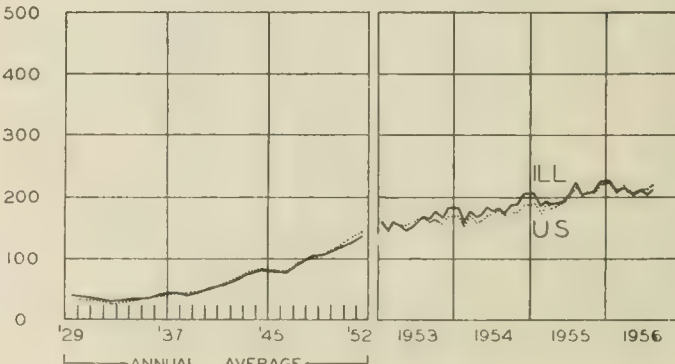
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



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BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
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## HIGHLIGHTS OF BUSINESS IN OCTOBER

Industrial production expanded in October as steel output continued to exceed rated capacity and automobile assembly lines resumed production. The Federal Reserve Board index of industrial production for the month may have exceeded the September level of 144 (1947-49 = 100).

Department store sales in October were below the high level of the third quarter on a seasonally adjusted basis. The adjusted index dropped to 123 (1947-49 = 100) from 129 in September.

### Auto Output Short of Goal

Automobile production in October climbed to 389,000 units following the completion of model changeovers by all makes except Packard. This total was far short of the predicted 500,000 and of the 518,000 produced last October. Production difficulties—strikes, parts shortages, and others—accounted for the decline.

### Little Change in Employment

Seasonal increases carried employment to a record total for October of 66,174,000, up 103,000 from September. By mid-October, unemployment had fallen to 1,909,000, down 89,000 from mid-September. With only 2.8 percent of all civilian workers out of jobs, the October unemployment rate was as low as in any month during the past three years.

### Construction Declines Seasonally

Outlays for new construction totaled \$4.1 billion in October, \$200 million below September, but \$100 million above October a year ago. It was the second consecutive monthly decline and was largely seasonal in character. Most of the decrease in private construction resulted from the more-than-seasonal reduction in the value of work put in place on new private housing. This category was 14 percent below the October record of 1955, whereas other major private construction categories continued at high levels.

Public construction was down slightly from the September level, but was above that of October, 1955. During the first 10 months of this year public construction outlays ran 7 percent above those of the corresponding 1955 period, whereas private construction remained at about the same level as last year.

### Personal Income Rises Slightly

Personal income reached an annual rate of \$328.5 billion in September, \$400 million above the annual rate for August and \$17.5 billion above that for September, 1955. The increase over the August level was only one-tenth as large as the rise from July to August.

Higher wage and salary income accounted for all of the increase over the previous month, although the payroll gains were smaller than in most other months this year.

### Consumer Debt Rise Off

September saw a sharp decline in the rate of increase in consumer installment debt. Only \$60 million was added to the total, compared with \$350 million in August and \$500 million in September, 1955. Most of the increase came in personal loans and in repair and modernization loans. With potential customers waiting for the new models, expansion of outstanding automobile installment credit, which has been a major element in the growth of consumer debt in earlier months, came to a virtual halt as repayments almost offset new credit granted. Additions to outstanding credit for other consumer durables were also negligible.

### Manufacturers' Stocks Up, Sales Level

Inventory book values of manufacturers had climbed to \$49.6 billion at the end of September, \$500 million above the August level after seasonal adjustment and \$5.3 billion above that of September, 1955. The increase over August was confined largely to the durable-goods sector, where inventories had been affected in July and August by the steel strike. It was the same as the average monthly increase during the first six months of the year.

Manufacturers' sales of \$27.7 billion were equal to those of August after seasonal adjustment and were only \$100 million above the total for September, 1955. The stock-sales ratio for manufacturing reached 1.8 compared with 1.6 a year ago. New orders were down \$900 million from the August level and \$500 million from that of the previous September. However, unfilled orders, of which more than 95 percent were in the durable-goods industries, were \$500 million above those of August and \$10 billion above those of a year ago.

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## Innovation Rules the Boom

At the peak of prosperity, after a long series of gains with only minor interruptions, attention tends to be focused on the factors underlying economic growth. Among those factors are increased industrial efficiency and the inventive genius of those who have developed new products and new techniques for making products of all kinds. There are, for the time being, so many things to do and so many ways of doing them that fears of idleness seem entirely unwarranted: If there should be a slackening anywhere, surely something else would take its place.

Currently, the scientific and technical research which contributes most of the new developments is progressing at an unprecedented rate. Corporate research and development expenditures are estimated at over \$4 billion a year. Large corporations are estimated to spend an average of 2 percent of sales for research, with expenditures in such industries as aircraft, radio-television, and electrical equipment running to well over 5 percent.

### Stability of Research Expenditures

Research exerts its economic effects largely through subsequent business investment in new plant and equipment. Facilities are needed to turn out the new products and to take advantage of the new processes; and even where there is nothing strikingly new or different in either, the new plants usually incorporate various improvements and increase over-all capacity to produce.

Since research is currently running at a peak, it seems to many that new discoveries must constantly call for a correspondingly high level of investment. No one questions that the rate of innovation has been a factor in the investment boom of the past year. But when this line of thinking is carried to the point of stating that research and investment will remain at peak levels indefinitely, it drifts into the realm of economic fallacy.

In the first place, there can be no assurance that research will continue at present levels if adverse business conditions develop. In the early 1930's, research programs were cut drastically, perhaps more rapidly in the aggregate than the over-all decline in business. It is said that business now better recognizes its dependence upon research and will not make the same mistake again. This point may have some merit, but it does not completely override the tendency of many businesses to regard re-

search as a luxury, to be undertaken when profits are high and curtailed when they have fallen back. This "hard-headed" view is justified by the fact that research contributes no immediate return, but only the prospect of an improved future.

Today, a large portion of total research expenditures are financed by the Federal government—either directly through research contracts or indirectly through tax reductions. The government is spending over \$2 billion a year on research and development, with perhaps something over half being channeled through corporations. Of the remaining \$3 billion of corporate expenditures, roughly half may also be regarded as being paid for by the government, since research expense is deductible and earnings are taxed at 52 percent. This logic holds, however, only so long as there are such substantial earnings as to leave adequate funds available after taxes for other corporate purposes. When earnings are squeezed, research becomes competitive with other corporate needs, including dividends; and in the struggle for available funds, it can hardly be considered dependably stable.

### Discovery and Innovation

Even if one chooses to regard research as a relatively stable element in the business picture, the tie between discovery and investment is not so close as to ensure that the latter will consistently follow the former. The business cycle analyst who has made the most thorough study of innovations—J. A. Schumpeter—found that their pace is not governed by that of invention. The inventor's discoveries create opportunities for new investments. They cannot ensure that investments will actually be undertaken to give them immediate practical application. Knowledge may lie dormant through years of depression. Then, the concerted rush to apply it generates the succeeding boom.

Schumpeter's studies of innovation produced a theory, not primarily of growth, but of business cycles. He saw the continuity of technological progress but was impressed by the way waves of expansion and contraction interrupted the pattern of steady growth. The practical innovators put accumulated knowledge to work in a frenzy of haste, and then, for a while, investment lagged while the basis for a new upsurge developed. He held these waves of innovation, or cycles in investment, to be inherent in the processes of adjustment in an economy like ours.

Although this type of theory does not offer a complete explanation, the thesis that investment is subject to wide cyclical fluctuations is widely accepted by other analysts. Rates of investment swell at times to heights that cannot be sustained. Then, after industry has exploited its plans for the best in new facilities, investment must drop back from the peak. The automobile industry is entering this stage in its investment cycle today, and its capital outlays may be declining for the next two or three years. No industry is exempt from a similar pattern of saturation in investment programs.

### Productivity and Obsolescence

Some who look for current rates of investment to be sustained place the emphasis not upon growth in capacity but upon obsolescence. The older capacity is held to involve excessively high costs. Cost reductions in the new plants commonly take the form of laborsaving devices,

(Continued on page 8)



# TRANSPORTATION CENTER OF THE WORLD

No other area in the world offers manufacturers and distributors the extensive transportation facilities that are available in Illinois. Endowed with an impressive system of waterways and equipped with an even greater network of railroads, highways, and airways, Illinois provides transportation for more people and for more tons of goods than any other state in the nation. Chicago has long been recognized as the country's transportation capital, and the new St. Lawrence Seaway Project has created the prospect of its becoming a major world port.

### Railways

Illinois has 30 major railroads and 31 terminal, switching, belt, and interurban lines operating over 11,400 miles of track. The number of miles of track has declined from the high of 12,500 miles in 1930, but this steady decline is general throughout the United States and is due primarily to the introduction of better equipment, more efficient methods of routing, and the consolidation of facilities. In 1955 there were 108,530 railroad employees in Illinois with an annual payroll of \$492.2 million—the largest number of railroad employees and the largest railroad payroll of any state in the nation.

Chicago is the largest rail terminal in the world, measured by volume of tonnage and extent of facilities. The Chicago Terminal District contains nearly 8,000 miles of track and covers 1,750 square miles, an area larger than the state of Rhode Island. Operating in this area are 37 railroads—19 trunk lines, seven belt and switching companies, eight industrial railroads, and three electric interurban railroads. It is estimated that the CTD handles 17 percent of the nation's passenger business, and 7 percent and 4 percent respectively of freight car loadings and unloadings. All told, nearly 45,000 freight cars are handled there each day.

### Motor Carriers

Illinois was rated fourth in the nation in motor truck registration in 1955, with a total of 407,501 trucks of all types, an increase of 172,987 since 1941. Trucking in Illinois is centered around Chicago, the hub of the nation's trucking industry. Approximately 500 intercity and interstate motor freight companies located in Chicago serve communities throughout the nation; in addition there are 2,000 local cartage companies in the city. The 247 trucking terminals located there offer specialized services to shippers far surpassing those of any other city.

Overnight delivery service is provided within a 400-mile radius of Chicago and 33-hour service to New York City is available. Many haulers also offer a four-day service to the West Coast. In all, there are some 34,000 communities throughout the 48 states which are provided with a direct, scheduled service from Chicago.

More than 100 bus lines operating over 14,800 miles of State highways connect virtually every city, town, and village in Illinois. Some 900 intercity and interstate buses carry an average of 10,000 passengers a day to Chicago

alone. The new \$10 million, ultramodern Chicago Greyhound Terminal provides facilities for 31 buses and is capable of dispatching 124 buses, with a capacity of 4,500 passengers, every hour.

### Airways

Chicago is also served by 13 major airlines, 11 of which offer direct overseas services. In addition, three major "feeder-line" systems originate or terminate a large percentage of their flights in Chicago. Its facilities handle more planes, passengers, and cargo than any other city. In 1955, 8.6 million persons, approximately 25 percent of all the air travelers flown in the United States, utilized its services. This amounts to nearly 17 percent of the world's total air passenger travel.

Chicago's Midway Airport is the world's busiest. As many as 1,200 flights a day have been handled there and it normally averages 900 flights every 24 hours. Just northwest of the city is O'Hare Field, the world's largest airport. It covers an area of 10 square miles—10 times that of Midway and 1,000 acres larger than New York's Idlewild. It is being brought into use gradually, with flights being systematically transferred in an effort to reduce the load at Midway. It is estimated that these two airports combined will handle 14.5 million passengers annually by 1960 and 22 million by 1970.

Illinois ranks third among the states in the number of civil aircraft and fourth in the number of active pilots. There are currently 3,515 registered aircraft and 10,549 registered pilots in Illinois as compared with 896 and 1,817 respectively in 1939. The number of commercial airports has also increased from 30 to 134 and private-use airports from three to 520 over the same period.

### Waterways

Illinois waterways total 1,175 miles, consisting of 427 miles of navigable rivers and canals inside the State and 748 miles of natural waterway created by the bordering Mississippi and Ohio rivers. These rivers directly connect Illinois to the 15,000 miles of navigable channels of the Mississippi Waterway System whose water-borne commerce is nearly half again as large as that handled by the Panama Canal.

The Illinois Waterway (from Grafton on the Mississippi to Chicago) carried traffic amounting to more than 21 million tons in 1955 as compared with 5.5 million tons in 1939. Major commodities hauled included coal, petroleum, grain, sand, gravel, stone, and steel products.

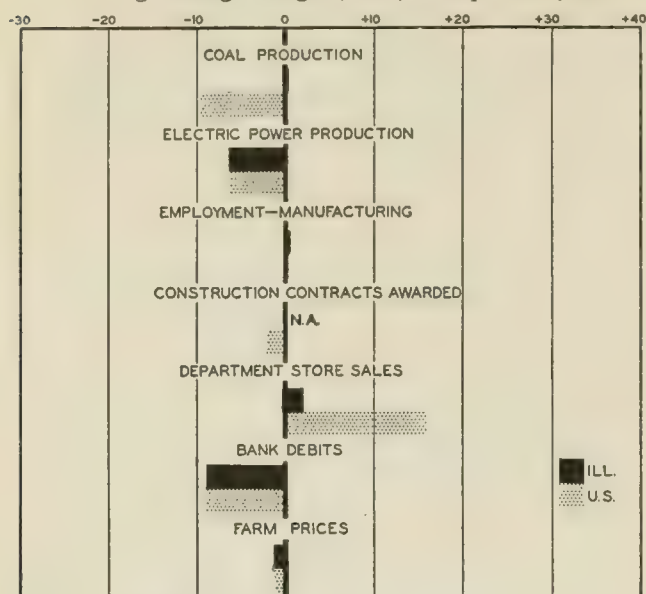
Chicago has become a port of some importance. In 1955 it handled nearly 39 million tons of commerce, an increase of more than 7 million tons over the previous year, and was rated as the eighth largest port in the nation in terms of tonnage handled. It currently handles about 40 percent of all overseas tonnage in and out of the Great Lakes, and 254 overseas vessels—90 percent of all ships engaged in Great Lakes overseas trade—made Chicago a port of call in 1955.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes August, 1956, to September, 1956



N.A. Not available.

## ILLINOIS BUSINESS INDEXES

Item	Sept. 1956 (1947-49 = 100)	Percentage Change from	
		Aug. 1956	Sept. 1955
Electric power <sup>1</sup> .....	203.9	-6.3	+ 0.1
Coal production <sup>2</sup> .....	77.3	+0.2	+ 4.2
Employment—manufacturing <sup>3</sup> .....	107.9	+0.4	+ 1.6
Weekly earnings—manufacturing <sup>3</sup> .....	148.7 <sup>a</sup>	+1.0	+ 3.4
Dept. store sales in Chicago <sup>4</sup> .....	119.0 <sup>b</sup>	0.0	+ 6.3
Consumer prices in Chicago <sup>5</sup> .....	120.3	+0.2	+ 1.2
Construction contracts awarded <sup>6</sup> .....	n.a.	.....	.....
Bank debits <sup>7</sup> .....	151.5	-8.9	- 4.2
Farm prices <sup>8</sup> .....	83.0	-1.2	+ 7.8
Life insurance sales (ordinary) <sup>9</sup> .....	211.1	-7.5	+18.0
Petroleum production <sup>10</sup> .....	129.9	-0.5	+ 2.1

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor;  
<sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.

<sup>a</sup> August data; comparisons relate to July, 1956, and August, 1955.  
<sup>b</sup> Seasonally adjusted. n.a. Not available.

## UNITED STATES MONTHLY INDEXES

Item	Sept. 1956	Percentage Change from	
		Aug. 1956	Sept. 1955
Personal income <sup>1</sup> .....	328.5 <sup>a</sup>	+ 0.1	+ 5.6
Manufacturing <sup>1</sup> .....	332.4 <sup>a</sup>	+ 0.4	+ 1.8
Sales.....	50.1 <sup>a,b</sup>	+ 1.2	+12.1
Inventories.....	.....	.....	.....
New construction activity <sup>1</sup> .....	.....	.....	.....
Private residential.....	17.0	- 0.4	- 9.3
Private nonresidential.....	17.1	- 1.1	+ 8.0
Total public.....	17.1	+ 0.7	+12.5
Foreign trade <sup>1</sup> .....	.....	.....	.....
Merchandise exports.....	18.2 <sup>c</sup>	- 6.0	+22.7
Merchandise imports.....	12.6 <sup>c</sup>	- 0.1	+ 9.2
Excess of exports.....	5.6 <sup>c</sup>	-16.9	+69.5
Consumer credit outstanding <sup>2</sup> .....	.....	.....	.....
Total credit.....	40.1 <sup>b</sup>	+ 0.5	+10.8
Installment credit.....	30.7 <sup>b</sup>	+ 0.3	+10.8
Business loans <sup>2</sup> .....	29.7 <sup>b</sup>	+ 1.9	+20.5
Cash farm income <sup>3</sup> .....	n.a.	.....	.....
Indexes (1947-49 = 100)			
Industrial production <sup>2</sup> .....	.....	.....	.....
Combined index.....	144 <sup>a</sup>	+ 1.4	+ 1.4
Durable manufactures.....	163 <sup>a</sup>	+ 2.5	+ 1.9
Nondurable manufactures.....	129 <sup>a</sup>	+ 0.8	+ 0.8
Minerals.....	129 <sup>a</sup>	+ 0.8	+ 4.9
Manufacturing employment <sup>4</sup> .....	.....	.....	.....
Production workers.....	105	- 0.7	- 0.8
Factory worker earnings <sup>4</sup> .....	.....	.....	.....
Average hours worked.....	102	+ 0.7	- 1.0
Average hourly earnings.....	150	+ 1.0	+ 5.3
Average weekly earnings.....	153	+ 1.8	+ 4.2
Construction contracts awarded <sup>5</sup> .....	265	- 2.1	- 0.5
Department store sales <sup>2</sup> .....	129 <sup>a</sup>	+ 0.8	+ 6.6
Consumers' price index <sup>4</sup> .....	117	+ 0.3	+ 1.9
Wholesale prices <sup>1</sup> .....	.....	.....	.....
All commodities.....	115	+ 0.5	+ 3.2
Farm products.....	90	+ 1.2	+ 1.0
Foods.....	104	+ 1.4	+ 2.5
Other.....	123	+ 0.3	+ 3.7
Farm prices <sup>3</sup> .....	.....	.....	.....
Received by farmers.....	87	- 1.1	0.0
Paid by farmers.....	115	0.0	+ 2.7
Parity ratio.....	82 <sup>d</sup>	0.0	- 2.4

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.  
<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for August, 1956; comparisons relate to July, 1956, and August, 1955. <sup>d</sup> Based on official indexes, 1910-14 = 100. n.a. Not available.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1956					1955
	Oct. 20	Oct. 13	Oct. 6	Sept. 29	Sept. 22	Oct. 22
Production:						
Bituminous coal (daily avg.).....thous. of short tons.....	1,747	1,705	1,735	1,752	1,683	1,629
Electric power by utilities.....mil. of kw-hr.....	11,333	11,300	11,342	11,365	11,482	10,644
Motor vehicles (Wards).....number in thous.....	110	91	79	57	50	164
Petroleum (daily avg.).....thous. bbl.....	6,997	6,993	7,022	7,044	7,063	6,753
Steel.....1947-49 = 100.....	145	144	145	145	144	138
Freight carloadings.....thous. of cars.....	829	823	815	831	822	829
Department store sales.....1947-49 = 100.....	129	134	127	130	131	133
Commodity prices, wholesale:						
All commodities.....1947-49 = 100.....	115.2	115.0	115.2	115.2	115.1	111.6 <sup>a</sup>
Other than farm products and foods.....1947-49 = 100.....	123.1	123.0	122.9	122.6	122.6	119.0 <sup>a</sup>
22 commodities.....1947-49 = 100.....	90.7	90.6	91.1	91.8	91.9	89.5
Finance:						
Business loans.....mil. of dol.....	29,836	29,833	29,849	29,724	29,694	25,082
Failures, industrial and commercial.....number.....	254	259	253	251	262	239

Source: Survey of Current Business, Weekly Supplements.

<sup>a</sup> Monthly index for October, 1955.



# RECENT ECONOMIC CHANGES

## Record Number of Business Failures

Business failures in the first nine months of 1956 mounted to a postwar high, with approximately one thousand firms closing their doors each month. Average monthly failures in these first nine months were 16 percent more than in the same period of 1955. The largest relative increase, 30 percent, occurred among construction firms. Twenty percent more commercial service firms, 16 percent more trade firms, and 7 percent more manufacturing and mining companies went out of business.

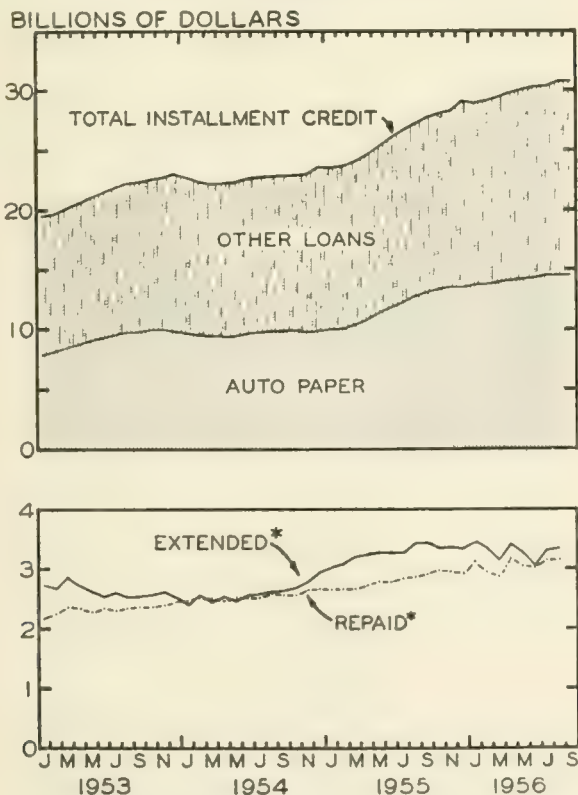
Liabilities of the bankrupt firms averaged \$46.9 million a month in the first three quarters. This was up relatively more than the number of failures as liabilities of the average firm increased to \$44,000 in 1956 from \$41,000 in 1955.

On the other side of the picture, new corporations were being formed at a record rate of 12,000 per month. This was 4 percent above last year and 12 percent above 1946, the previous postwar high.

## Installment Debt Expansion Slows

The pace of consumer debt expansion slowed considerably in the first nine months of 1956, as shown by the chart. Between January and the end of September of 1955, total installment debt rose by \$4.2 billion. This year the increase during the corresponding period was limited to \$1.6 billion. The slowdown in the rate of growth of total installment loans and the narrowing of the gap between extensions and repayments was almost entirely due to reduced consumer demand for automobiles and consequently for auto credit. In the first three quarters of last year such debt advanced by \$3.5 billion compared with

INSTALLMENT DEBT



\* Seasonally adjusted.

Source: Federal Reserve Board.

\$1.0 billion this year. On the other hand, non-auto installment debt, led by personal loans, has continued upward at a rate only a little below that of last year.

The credit data shown in the chart are revised estimates of the Federal Reserve Board, appearing in its October *Bulletin*. The principal effect of the revision, which covers the period from 1948, was to raise the estimate of total consumer credit outstanding at the end of 1955 by \$2.4 billion. Estimates of all major types of credit were increased except auto paper, which was reduced by the revision.

## Liquid Saving Rate Slackens

Individuals reduced their rate of net saving in various forms between the first and second quarters, though this saving was well above the second quarter of last year. In the second quarter of this year net financial claims, as measured by the Securities and Exchange Commission, increased by \$2.2 billion compared with \$4.8 billion in the first quarter. For the first half of 1956, the increase in net claims amounted to \$7.0 billion compared with only \$1.3 billion in the corresponding 1955 period, when mortgage and consumer debt increased more rapidly than this year.

The reduction in saving during the second quarter was mainly due to a shift from investment in government bonds amounting to \$2.2 billion in the first quarter to moderate liquidation in the second quarter, and an increase in the rate of debt expansion from \$2.2 billion to \$4.3 billion. Saving in the forms of currency and bank deposits, shares in savings and loan associations, and in both private and government insurance and pension programs continued to rise during the second quarter.

## Heavy Corporate Demand for Funds

Corporate demand for funds to finance the record volume of investment in capital facilities and a relatively rapid rate of inventory accumulation in the first half of 1956 totaled almost \$18 billion, 5 percent above the first half of 1955, according to an article in the October *Survey of Current Business*. Total outlays for new plant and equipment amounted to \$13.6 billion; and if current capital investment intentions for the rest of this year are fulfilled, use of funds for this purpose will exceed 1955 by \$5 billion.

Corporations also used \$4.2 billion to carry accounts receivable and to finance other miscellaneous outlays in the first half of 1956. Offsetting the increase in fixed and working capital was the liquidation of corporate cash and security holdings to the extent of nearly \$8 billion. Much of this movement was seasonal in nature, as corporations drew on their short-term government securities to meet income tax liabilities.

Although internal funds from corporate depreciation reserves and retained profits continued to fill the major part of financial requirements in the first six months of 1956, the unprecedented volume of fixed investment caused firms to seek a larger portion of their financial requirements externally than was the case last year. Corporations increased borrowing from banks and new security issues rose to a record high of \$6.2 billion. As a result, internal sources provided only about two-thirds of total requirements in 1956 whereas in the first half of 1955 four-fifths of corporate investment was financed internally.

(Continued on page 8)

# AN APPRAISAL OF OPERATIONS RESEARCH TECHNIQUES

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From a basic methodological point of view there is nothing that differentiates operations research, or systems analysis, as it is sometimes called, from any other type of economic analysis. The method is still the scientific method: the analyst must examine a problem and choose the dominant variables, then advance a hypothesis that specifies the relationships between these chosen variables; and finally he must compare his model of reality with the facts to test for consistency. If the analysis is sound it will withstand the acid test of making improved forecasts of future behavior. These steps operations research shares with other kinds of economic analysis.

What sets operations research apart from other traditional social analysis is the attempt to apply this scientific method to new kinds of problems. I hasten to add that the problems are not new; only our attempt to force these matters into a systematic framework of analysis is new. There are many complicated problems whose solutions hitherto depended upon the judgment of some responsible executive. For example, consider the military problem of determining force composition. With a given budget, how should funds be allocated between different types of weapons? Or consider a problem for a business enterprise: What is the optimal amount of inventory to carry and in what form should it be carried — raw materials, semifabricated components, or finished components? Examples are numerous; the point, however, is that in most real situations the decision is made on the basis of rough rule of thumb or informed intuition.

## Research May Replace Human Judgment

Even though the intuition of an expert is truly amazing, there is a widespread feeling that judgment could be improved through use of the explicit analysis called operations research. The problems of a decision maker are the very essence of the real world, and to be of value, research cannot abstract too far from reality. For example, to tell a businessman that he should expand output to the point where marginal cost equals marginal revenue is not useful to him unless you work out these measures quantitatively. However, when you try to quantify these things, more and more elements of the real world come into the analysis as independent variables. Naturally, no analysis can take into account all of the elements of the real world, but operations research usually attempts to handle explicitly more variables than traditional economic analysis.

To handle more detailed problems, operations research has had to develop new tools of analysis, for example, mathematical models of varying degrees of sophistication, linear and dynamic programming, theory of games, Monte-Carlo techniques, and others. At the present time we are still feeling our way in the use of these tools. Nevertheless, they are tools, and one might raise the question of how effectively these new research techniques perform their function of providing useful answers.

About three years ago a group was established at the Rand Corporation to work on Air Force logistics problems. In the course of this work we have used just about every research technique available. Today I would like to go back over our experience with you and evaluate the ability of some of these methods to yield useful results.

## Analytic Models Aim at Optimal Solutions

Usually the relationships between the numerous variables handled in operations research are difficult to see, and as a result the analyst is forced to develop an explicit, that is, mathematical, model. Models can be of several general types. The first type considered here is the analytic model. Through the operation of this type of model it is possible, at least in concept, to obtain optimal solutions to a problem.

Let me give an example: A common inventory problem requires answering the question, How low should stock levels fall before a reorder is indicated, and once indicated, how much stock should be ordered? The cost of maintaining an inventory equals the expense of holding stock, the cost of not having enough stock, and the cost of replenishing inventory from time to time. The average amount of stock on hand is a function of the reorder point (the amount of stock on hand when a replenishment is indicated) and the reorder quantity (the amount of stock to be ordered once a replenishment is indicated). Expressing the inventory costs in terms of the reorder point and reorder quantity and solving for the minimum cost solution is a relatively simple matter.

Now, this particular model yielded useful results and was used to compute inventory levels in several cases. Note, however, that the model is relatively simple with only two independent variables, the reorder point and reorder quantity. In general, despite the fact that a large number of analytic models were developed, the only ones we have been able to make operational have been simple. In case after case the only use we have made of the more sophisticated models was to publish them in one of the journals where, presumably, they help make life interesting for graduate students.

The fact of the matter is that any non-trivial analytic model, tracing through the full interdependencies of a large number of variables, is going to be difficult and expensive to compute. In the past decade phenomenal advances have been made in the speed and capacity of electronic computers. However, anyone present could put together a model beyond the capability of the most powerful computer available today. Normally, the analyst is forced to cut back the number of variables in his model in the name of computational necessity or economy. When you take a variable out of a model, it cannot simply be dropped; it sneaks back into the study as a part of one of the parameters. This causes trouble.

About a year ago a very complicated procurement model was developed that specified how much stock of a particular spare part should be purchased and when increments of the stock should be delivered. One of the elements in the model turned out to cause serious computing problems, and in order to simplify the analysis, the variable was removed from the model and buried in one of the cost parameters. We had a solution, but not an operational one; we could not obtain a measure of the cost parameter as defined in the model. In any event, this particular model was abandoned when we found that a single solution took a half hour on the IBM 701. Since many thousands of runs were necessary to obtain interesting results, we would quickly have run out of budget.



## Complex Models Present Difficulties

Computational difficulties, while very real, are the least of the problems that arise in developing operational models. The more elegant the model, the more refined and accurate must be the input detail. All too often, complicated models call for inputs that are either unobtainable or can only be obtained approximately. To use such models with poor input detail is a waste of time and money.

A few months ago we completed another procurement model which attempted to determine how much of a specific part the Air Force should buy and how orders for the item should be spaced. We used what in concept should turn out to be a very powerful tool of analysis, a dynamic programming model. With this type of model one computes an optimal strategy rather than a single optimal solution. That is, the element of random chance is recognized, and given the situation in any time period the model will specify the course of action most likely to achieve the desired result. If the optimal result is impossible, the model will specify the course of action that will come closest.

This model operates something like this: one starts at the end and specifies the result to be achieved. For example, when the last B-47 is phased out of the Air Force how much of spare part XYZ would one like to have left over? Now working backwards, what level of stock in the preceding time period would most likely allow this goal to be realized? Since the requirement for spare parts is a random variable, there is a range of stock levels each with a different probability of reaching the final goal. Thus one has a range of levels with some chance of attaining the final goal. Going another step back, what level of stock in the preceding time period would allow one to fall within this range of levels in the next to the last time period? And so on, working backward through time. This model is, without a doubt, a very elegant one.

Yet, what did we have? In testing a certain procurement hypothesis, this model could not be made operational; the refined input detail simply did not exist. Reluctantly, we put it back on the shelf and turned to more simple research techniques.

## Alternative to an Optimal Solution

It might interest you to know how we eventually tested this procurement hypothesis. First, we gave up trying to determine the theoretically optimal solution, with the rough data obtainable. Second, the analysis was simplified by judicious use of an a fortiori assumption, that is, every simplifying assumption operated against the hypothesis we were testing. We postulated, for example, that the Air Force had the ability and a mechanism to correct procurement errors as soon as they became known. In so large and complex an organization, such an assumption cannot be true. But its effect was that we were testing our hypothesis against the best alternative operations possible in the Air Force system. Finally, we employed sensitivity testing to determine which cost parameters had the greatest impact on the results. If the results were sensitive to a particular cost, we made every effort to obtain the best possible estimate of the cost parameter.

Further, we ascertained how far off our estimate could be and still have pertinent results. In this case, the hypothesis held up over a wide range of costs, and we could prove they were not that high. Hence, although our study did not say this is precisely how far we should go,

it did say that we can go at least this far. Thus one can analyze some complicated problems and realize useful results by settling for less than the theoretical optimum.

Most practical work involves very pragmatic types of research problems. While we might like to extend the frontiers of theoretical analysis, most of us face the necessity of producing useful results. This is not to detract from theoretical research. Someday, our data will be more refined and our computational capabilities will be greater. But for now? To date, no one has solved a non-trivial theory of games problem, nor has anyone developed as yet an operational dynamic program model. With very few exceptions (primarily linear programming models) all useful analytic models have been relatively simple. Some of the more elegant of the new research techniques must be viewed with suspicion. Before using them one must be certain that the data and computational ability exist to make them operational. You may be surprised at how few times some of these techniques are applicable.

## Monte-Carlo Models

Now I would like to touch briefly on two other types of models. The first of these is the so-called Monte-Carlo model. This model is useful for some problems that cannot be solved any other way. Or, one might use this technique simply because of its educational values.

One of the strong points of the Monte-Carlo method is its ability to cope with uncertainty. Many of the elements in the real world are subject to considerable random variability, and unless this is taken into account an analysis will be incomplete. To illustrate, if I am offered a choice between two bets, one in which I have a 50-50 chance of getting either two dollars or four dollars and another bet in which I have four chances in one hundred of getting one hundred dollars and the rest of the time nothing, which do I choose? The first bet pays an average return of 3 percent, the second pays 4 percent. However, a decision maker cannot make his choice on the basis of average outcome alone. The size of the stakes and the possibility of being completely ruined are also relevant. I would personally not take a bet that on a series of flips of a coin, heads I pay \$900, tails I get \$1,000, although it is an advantageous bet. The chance of going broke is too great.

While these examples are frivolous, they make the point. Both businessmen and military leaders have to make decisions of this type and cannot ignore the effects of random chance. Random chance is difficult to build into an analytic model, particularly if there are several elements, each subject to chance. In such cases an analyst is forced to go to Monte-Carlo models.

## How Monte-Carlo Models Are Used

In concept, a Monte-Carlo model is simplicity itself. One works through each step of the problem applying a randomizing technique to those variables subject to uncertainty. For example, any set of inventory rules must cope with uncertainty. While average demand for inventory may be one per week, actual demand from week to week can vary considerably. Similarly, while the average pipeline time to obtain additional inventory may be one month, there can be many times in which the re-supply time differs. In a Monte-Carlo model one ascertains the distribution of such random elements around the average value. Then in working the problem through, one shakes some dice or spins a wheel to determine how much

the demand for a given item will be above or below the average in this time period. Similarly, when a reorder is indicated, one randomizes to determine when the stock ordered will arrive. This is continued through many cycles to obtain expected outcomes. A Monte-Carlo can be worked out by hand; however, an electronic computer is almost essential for useful results. In one of our logistics Monte-Carlo models, we can run through about two centuries of simulated operation in a few minutes with an electronic computer.

A Monte-Carlo model does not give unique or optimal solutions to a problem, but given several likely possibilities, it picks out the best solution of those tested. Monte-Carlo models have certain advantages other than analytic ease. With such a model it is possible to gain a good understanding of variable interrelationships. To determine the effects of variations of a given factor on all other elements of a problem, all the factors but the one to be considered can be frozen and the model run through several times. Concomitant variations can be studied in the same way; all factors but two can be frozen and the effects of variations in these noted.

I have found that if I have an operations research problem that I do not fully grasp, putting it into a simple Monte-Carlo framework usually turns out to be very instructive. Further, since the model simulates the actual steps of the operation, there is a greater likelihood that one will be able to find data in the form in which he wants it. In short, if you have an electronic computer at your disposal, our experience would suggest that this tool of analysis be given consideration.

## Gaming Techniques Retain Human Judgment

The last type of model to be discussed is relatively new but looks very promising. It was developed out of military war gaming exercises, and for want of a better name, let me call this new technique a gaming solution.

There was a time when war game exercises were played by individuals alone. A person or team would be in charge of one side (blue forces) and another person or team would take charge of the other (red forces). Each side would be assigned a given force at the start of the game, then they would play war. Red forces might decide to send over a bomber strike and an umpire would use some kind of randomizing instrument to determine what portion of the strike made its objectives.

As time went on, efforts were made to introduce more and more elements of reality into the war exercises until finally the games became too complex to be played by human beings. An effort was made to put all of this detail into electronic computers and essentially have two computers play against each other. This did not turn out to be satisfactory. One of the advantages of the human mind is its ability to change strategy quickly in order to take advantage of chance or of an opponent's mistake. We have not been able to code machines to do this. The most efficient gaming technique developed to date consists of a man-machine combination, wherein the machine stores and handles all of the detail, but at key steps human intervention is possible.

These gaming solutions have proved rather successful in various military problems. At the present time we are in the process of trying to apply this method to military logistics problems. If this attempt should prove successful, the method may be useful on business and economic problems, for, after all, military and business logistics matters have much in common.

## Innovation Rules the Boom

(Continued from page 2)

and rising wage rates make the superiority of the new facilities even more evident. The more rapidly wage rates are rising, it is said, the more rapidly existing facilities are made obsolete.

The desire for efficiency has no doubt made an important contribution to the high rate of investment prevailing today, but what remains to be shown is that the situation now differs significantly from similar past situations. Efforts to combat rising costs through increased productivity appear to be characteristic of periods of high prosperity. High rates of innovation, accompanied by increasing productivity and rapidly rising wage rates, in themselves offer no guarantee against a decline. In the prosperity of the late 1920's, all these elements were present. The rise in wages relative to prices was then held to ensure not only the high investment but also the high consumption of the "new era." Neither the investment nor the consumption generated in this way prevented the collapse.

The fact is that most investments not only change the character of productive processes, making them more efficient, but also add to capacity. The higher efficiency of the new plants tends to relieve the squeeze of rising wages on profits. But the growth in capacity puts another kind of squeeze on profits, by increasing the pressure of competition on prices. The way to relieve this pressure is the opposite of the other—that is, it calls for lower investment. In the late stages of the boom, the attempt to apply this alternative sets in motion the cumulative forces of decline; for lower investment means lower demand and makes existing capacity excessive, further restricting the need for new investment. Thus, the innovations that made the boom may be said to rule also over the liquidation of its excesses.

VLB

## Recent Economic Changes

(Continued from page 5)

### Foreign Aid Rises

The downward trend in United States grants and loans to foreign countries evident since fiscal 1953 was reversed in the year ended June, 1956. Total net grants and credits rose 6 percent to \$5 billion. Transfers of military goods and services increased by a half billion dollars to slightly over \$3 billion, and other aid was reduced by \$200 million during the fiscal year to about \$2 billion.

Western Europe continued to receive the major portion of our military assistance—60 percent in fiscal 1956—but the increase in such aid to Europe from the previous fiscal year was small compared with an increase of a third to Near Eastern countries, and of a fourth to South Asia and the Far East.

Marked shifts in the geographical distribution of our nonmilitary assistance also took place in fiscal 1956. Disbursements declined sharply in Western Europe, mainly because of reduced payments to France and the United Kingdom in support of their military budgets. As a result, Western Europe's share of total nonmilitary aid dropped from 41 percent in fiscal 1955 to 14 percent in the fiscal year just ended. The share going to the Near East and Africa rose from 17 to 21 percent and that going to other Asian nations rose from 34 to 60 percent.



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Women College Graduates

Within six months of graduation, 80 percent of the June, 1955, women college graduates were working. A recent survey of this class six months after graduation, made by the National Vocational Guidance Association and the Women's Bureau of the United States Department of Labor, also indicated that one-third of the class were married. Nearly one-tenth were attending school full time, about 4 percent were seeking work, and 7 percent were neither working nor seeking work.

With widespread shortages of trained personnel, it is important that women college graduates be employed effectively. Fully four-fifths of the working graduates reported a relationship between undergraduate major and first job. Teaching led the occupational list with 61 percent of the employed graduates. This included almost all the employed education majors and at least half the employed graduates who had majored in physical education, English, mathematics, history, music, and home economics. Other groups of employed graduates who showed a relatively high degree of direct relationship between undergraduate major and first job were nurses, biological technicians, chemists, and secretaries.

### Highways of the Future

Meeting the needs of the record-breaking \$102 billion highway construction program during the next 13 years will require increases of 30 percent or more by 1960 in the production of a number of building materials (see chart). Increases in cement production capacity, which

should meet needs, are planned and under way. Wide-flange structural shapes will be the main steel supply problem. If planned capacity increases fail to meet the full demand for this item, reinforced concrete, prestressed concrete, and fabricated plate girders will be used to fill the gap.

In computing the material requirements, the Bureau of Public Roads has assumed the maintenance of the 1956 level of state and local government outlays and expansion of regular Federal-aid work from the 1957 level of \$825 million to about \$950 million. In addition to these amounts, \$31.2 billion would be spent under the Federal-Aid Highway Act of 1956. It was also assumed that the total expenditures would increase from approximately \$5 billion in 1956 to a peak of about \$8 billion in 1960.

### Rising Family Income

Median family incomes showed a 6 percent growth in 1955 over 1954, according to a recent Bureau of the Census report. With an estimated median income of \$4,420 in 1955 as compared with \$4,170 in 1954 and fairly stable prices during this period, a significant gain in buying power for the average family is indicated.

A 7 percent increase over the year in median income of nonfarm families was a contrast to the lack of significant change in rural-farm family income. Stability in rural-farm family incomes, despite lower farm prices, was attributed mainly to increased earnings from non-farm work.

About one-fifth of the nation's 43 million families received under \$2,000, and about two-fifths were in the \$2,000 to \$5,000 range. The remaining two-fifths received \$5,000 or more.

### Medical Market Changes

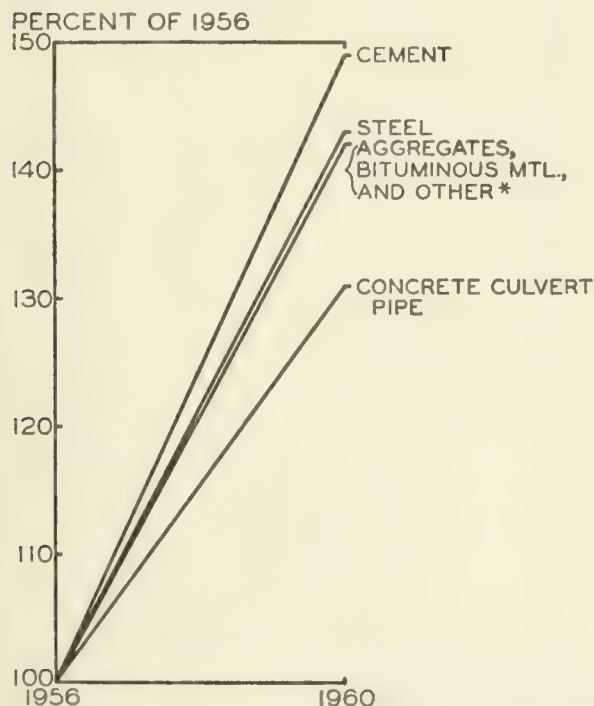
Between 1948 and 1953, prescription sales in the United States rose 16.4 percent. The sales increase, when analyzed by geographical areas, was largest in the Southern, Mountain, and Pacific states. In general, these gains reflected changes in the number of drugstores in various states, in physician movements, and in the pattern of migration of population, especially those in the older age groups.

Prescription sales also varied seasonally, with a high of 20 percent of total prescription sales in the January-February period and a low of 15 percent in the July-August period. Sales volumes by product classifications were relatively stable during the year, with the greatest variations in such highly seasonal products as cough preparations.

### Making Farm Work Easier

Four operations in one is the outstanding feature of the "Wonsover" farm machine. This 12-ton vehicle, which is ready for mass production by the Norton Portland Corporation of Portland, Maine, prepares and conditions the soil and plants and covers seeds in one operation. Towed by a tractor and controlled from a panel attached by an extension cord, the machine is said to prepare and seed two to five acres an hour. Selling for about \$37,000 fully equipped, the "Wonsover" has bins for seed, lime, fertilizer, and pest and weed killers.

#### ESTIMATED MATERIAL REQUIREMENTS



\* Lumber, timber piling, clay pipe and tile, and petroleum products.

Source: U. S. Departments of Commerce and Labor, *Construction Review*, September, 1956.

# LOCAL ILLINOIS DEVELOPMENTS

With a few notable exceptions, Illinois business activity for September showed little change from August. Steel output made a further increase over August, extending the recovery to an approximate pre-strike level. Declines of more than 5 percent, however, appeared in electric power production, life insurance sales, and bank debits, although only bank debits fell below a year ago. The other banking indicator, business loans, remained almost one-fourth higher than in September, 1955.

## Employment Trends

About 3.4 million people were employed in nonagricultural occupations in the State in July. This figure was slightly higher than a year earlier, due mainly to an increase of 43,000 in nonmanufacturing employment to 2.2 million. Employment in construction rose to an all-time high of 204,000. The building of new plants, highways, shopping centers, schools, and homes contributed to this employment rise. During this period, employment expansion also characterized the areas of finance, insurance, real estate, wholesale trade, and communications. Minor reductions were noted in government, retail trade, and transportation employees. Manufacturing employment dipped to 1,240,000, as a result of the steel strike.

## A Stitch in Time

An adequate driver education and traffic safety program in our Illinois public schools is less costly than

losses resulting from traffic accidents, says Dr. A. E. Florio, Associate Professor of Safety Education at the University of Illinois. In a recent study of economic losses resulting from traffic accidents in Illinois, Dr. Florio estimated that losses in 1955 from the 2,195 traffic fatalities alone amounted to approximately \$241.4 million, with an additional \$128.6 million loss due to injuries and property damage. In contrast, the estimated total cost of a one-year driver education program for 16-year-old students in the State is about \$3.1 million.

Financing of a well-rounded driver education and traffic safety program in public schools should originate from the people benefiting by it, according to Dr. Florio. Suggested sources are \$1 increases for drivers' licenses and automobile registration fees.

## Our Growing Population

Growth and redistribution characterized the population of Illinois between 1950 and 1955, with an estimated 7 percent increase in the State's population and an even greater growth in the metropolitan and surrounding areas. The State Department of Health reports that about 91 percent of the population increase of 608,000 from 8,753,000 persons in July, 1950, to 9,361,000 persons in July, 1955, was accounted for by the State's 13 metropolitan counties (see chart). These counties had a 9 percent aggregate population increase as compared with the 7 percent State average.

The increased population concentration in metropolitan areas and their immediate environs is indicated by the location of the counties showing percentage increases above the State average. Ten of the 13 metropolitan counties and 12 of the 89 nonmetropolitan counties fell in this category. Of these 22 counties, all except Champaign, Douglas, and Massac were either metropolitan counties or located adjacent to a metropolitan county.

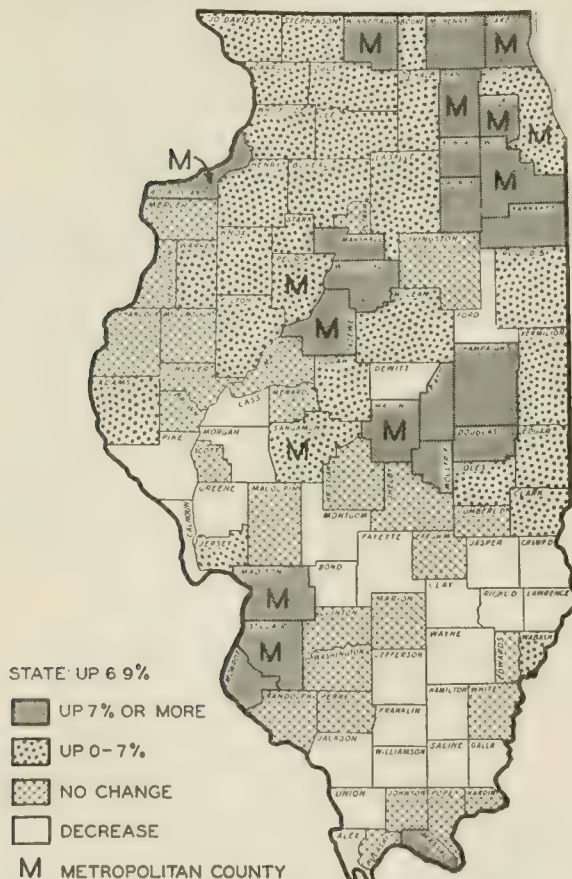
## The Missing Link

Illinois may furnish the missing link between the Great Lakes-St. Lawrence Waterway and the Mississippi River System. Development of Port Chicago at Lake Calumet and the widening of the Cal-Sag Channel are the two major projects necessary for the completion of the proposed Illinois Waterway System. The completed system would enable Illinois, the only state with a direct connection between these two large inland waterways, to handle a much larger volume of shipping.

Construction of Port Chicago has begun at the south end of Lake Calumet. In anticipation of possible worldwide shipping channeled from the north by way of the St. Lawrence Seaway and the Great Lakes, plans call for 14 miles of docks capable of handling 25 ships at once, grain elevators with a 13 million bushel capacity, storage sheds able to handle 500,000 tons of overseas or lake merchandise and 200,000 tons of inland waterway barge freight in a 30-week period, and a 13-acre storage tank field for items such as animal and vegetable oils.

The narrow Cal-Sag Channel is the present bottleneck restricting the flow of barge traffic from the south by way of the Mississippi River and the Illinois Waterway System to Lake Calumet. Plans call for widening this channel from 60 feet to 225 feet, replacing bridges which would restrict clearance, and installing adequate control locks.

POPULATION CHANGES, 1950 TO 1955



Source: Illinois Department of Public Health, *Health Statistics Bulletin*.



# COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

September, 1956

		Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Debits <sup>4</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS.....</b>		<b>\$34,932<sup>a</sup></b>	<b>1,093,882<sup>a</sup></b>	<b>\$585,892<sup>a</sup></b>		<b>\$13,245<sup>a</sup></b>	<b>\$13,626<sup>a</sup></b>
Percentage change from	Aug., 1956	-22.7	+1.3	-0.5	+2	-8.9	+11.7
	Sept., 1955	-24.6	+3.6	+3.4	+3	-4.2	
<b>NORTHERN ILLINOIS</b>							
<b>Chicago.....</b>		<b>\$23,615</b>	<b>835,313</b>	<b>\$427,910</b>		<b>\$11,971</b>	<b>\$11,889</b>
Percentage change from	Aug., 1956	-32.7	+3.5	-0.8	+3	-9.6	+12.1
	Sept., 1955	-15.0	+4.1	+4.6	+2	-4.9	
<b>Aurora.....</b>		<b>\$ 337</b>	<b>n.a.</b>	<b>\$ 9,031</b>		<b>\$ 61</b>	<b>\$ 132</b>
Percentage change from	Aug., 1956	-52.2		+4.7	+6	+1.5	+6.8
	Sept., 1955	-28.1		+5.3	+9	+10.0	
<b>Elgin.....</b>		<b>\$ 307</b>	<b>n.a.</b>	<b>\$ 6,077</b>		<b>\$ 41</b>	<b>\$ 88</b>
Percentage change from	Aug., 1956	-58.8		-4.1	+6	+0.0	+15.6
	Sept., 1955	-53.9		-0.5	+7	+14.0	
<b>Joliet.....</b>		<b>\$ 697</b>	<b>n.a.</b>	<b>\$12,632</b>		<b>\$ 74</b>	<b>\$ 98</b>
Percentage change from	Aug., 1956	+31.5		+5.7	+6	-4.8	+43.8
	Sept., 1955	+7.1		+5.6	+8	+5.6	
<b>Kankakee.....</b>		<b>\$ 223</b>	<b>n.a.</b>	<b>\$ 5,142</b>		<b>n.a.</b>	<b>\$ 44</b>
Percentage change from	Aug., 1956	+64.0		+5.7	n.a.		+16.2
	Sept., 1955	-3.0		-7.2			
<b>Rock Island-Moline.....</b>		<b>\$ 781</b>	<b>22,188</b>	<b>\$10,341</b>		<b>\$ 90<sup>b</sup></b>	<b>\$ 123</b>
Percentage change from	Aug., 1956	-61.7	+0.7	+2.7	n.a.	-0.8	-12.6
	Sept., 1955	-31.0	+6.6	+4.1		+6.3	
<b>Rockford.....</b>		<b>\$1,721</b>	<b>35,628</b>	<b>\$20,070</b>		<b>\$ 168</b>	<b>\$ 175</b>
Percentage change from	Aug., 1956	+12.1	-13.2	-0.3	+6 <sup>c</sup>	-4.3	+1.0
	Sept., 1955	+66.8	-1.4	+5.3	+12 <sup>c</sup>	+5.3	
<b>CENTRAL ILLINOIS</b>							
<b>Bloomington.....</b>		<b>\$ 178</b>	<b>7,672</b>	<b>\$ 5,451</b>		<b>\$ 62</b>	<b>\$ 77</b>
Percentage change from	Aug., 1956	-40.1	-5.2	-6.6	n.a.	-5.0	-7.9
	Sept., 1955	-84.3	+4.5	-4.2		+0.5	
<b>Champaign-Urbana.....</b>		<b>\$ 349</b>	<b>9,712</b>	<b>\$ 7,591</b>		<b>\$ 64</b>	<b>\$ 85</b>
Percentage change from	Aug., 1956	-43.8	-3.7	-12.8	n.a.	+4.1	+14.6
	Sept., 1955	-55.4	+0.9	-3.6		+1.6	
<b>Danville.....</b>		<b>\$ 242</b>	<b>11,437</b>	<b>\$ 6,423</b>		<b>\$ 59</b>	<b>\$ 51</b>
Percentage change from	Aug., 1956	+26.7	+3.3	-2.2	-5	+10.8	-7.7
	Sept., 1955	+28.7	+6.4	-3.0	+10	+13.1	
<b>Decatur.....</b>		<b>\$1,172</b>	<b>31,955</b>	<b>\$12,231</b>		<b>\$ 122</b>	<b>\$ 107</b>
Percentage change from	Aug., 1956	+20.0	+3.5	-3.5	-1 <sup>c</sup>	+15.4	+19.3
	Sept., 1955	-74.0	+4.0	+3.5	+8 <sup>c</sup>	+6.9	
<b>Galesburg.....</b>		<b>\$ 194</b>	<b>8,131</b>	<b>\$ 4,411</b>		<b>n.a.</b>	<b>\$ 28</b>
Percentage change from	Aug., 1956	-42.4	-5.1	-0.3	n.a.		+7.7
	Sept., 1955	-55.0	+0.6	-2.3			
<b>Peoria.....</b>		<b>\$3,408</b>	<b>53,939<sup>c</sup></b>	<b>\$19,185</b>		<b>\$ 208</b>	<b>\$ 233</b>
Percentage change from	Aug., 1956	+519.6	-0.0	+5.3	-3 <sup>c</sup>	-5.4	+17.4
	Sept., 1955	+31.6	+1.2	-1.4	+6 <sup>c</sup>	-3.1	
<b>Quincy.....</b>		<b>\$ 409</b>	<b>9,675</b>	<b>\$ 5,019</b>		<b>\$ 37</b>	<b>\$ 57</b>
Percentage change from	Aug., 1956	+107.6	-4.8	+0.1	-1	-2.3	+13.7
	Sept., 1955	-88.1	-5.4	-4.6	-5	-1.2	
<b>Springfield.....</b>		<b>\$ 272</b>	<b>33,381<sup>c</sup></b>	<b>\$14,240</b>		<b>\$ 112</b>	<b>\$ 189</b>
Percentage change from	Aug., 1956	-68.2	-14.7	-1.5	+3 <sup>c</sup>	-3.0	-6.3
	Sept., 1955	-55.3	+6.7	-1.3	+4 <sup>a</sup>	-2.7	
<b>SOUTHERN ILLINOIS</b>							
<b>East St. Louis.....</b>		<b>\$ 723</b>	<b>13,966</b>	<b>\$ 9,958</b>		<b>\$ 139</b>	<b>\$ 179</b>
Percentage change from	Aug., 1956	+563.3	-3.7	+2.1	n.a.	-2.5	+38.6
	Sept., 1955	+98.6	+2.4	-2.9		+1.0	
<b>Alton.....</b>		<b>\$ 81</b>	<b>12,994</b>	<b>\$ 5,333</b>		<b>\$ 36</b>	<b>\$ 29</b>
Percentage change from	Aug., 1956	-65.5	-14.1	+3.5	n.a.	-12.2	+2.8
	Sept., 1955	-39.1	-3.6	-2.4		-11.2	
<b>Belleville.....</b>		<b>\$ 223</b>	<b>7,893</b>	<b>\$ 4,848</b>		<b>n.a.</b>	<b>\$ 41</b>
Percentage change from	Aug., 1956	-32.6	-5.9	+1.2	n.a.		+6.0
	Sept., 1955	+25.3	+5.2	-4.9			

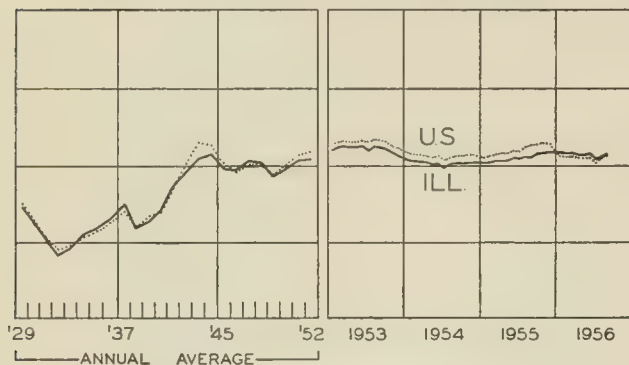
<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.

Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Data for June, 1956. Comparisons relate to May, 1956, and June, 1955. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports. Four-week accounting period ending September 21, 1956.

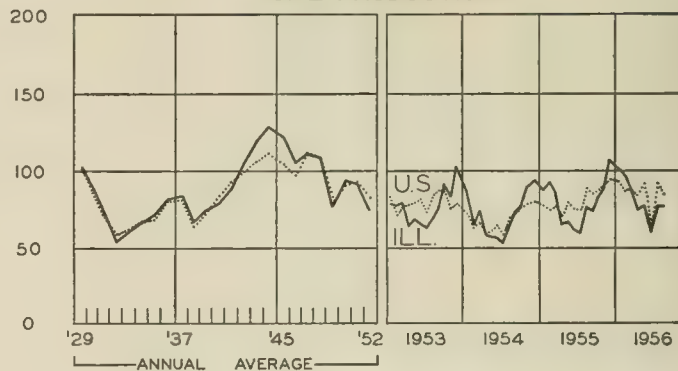
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

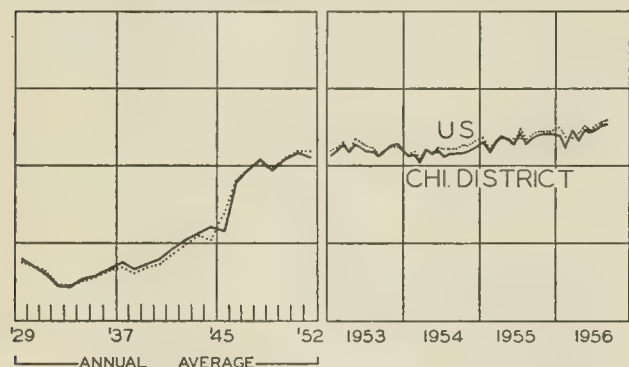
EMPLOYMENT-MANUFACTURING



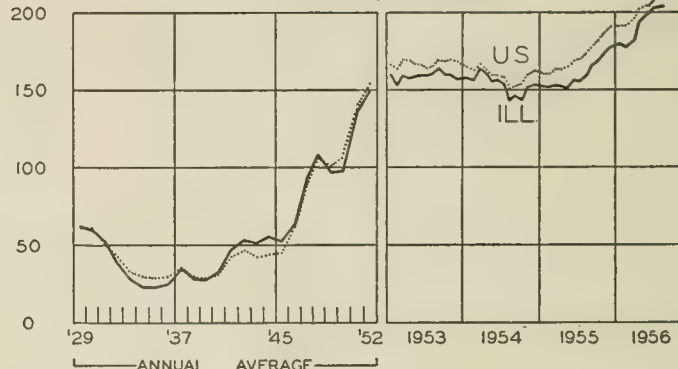
COAL PRODUCTION



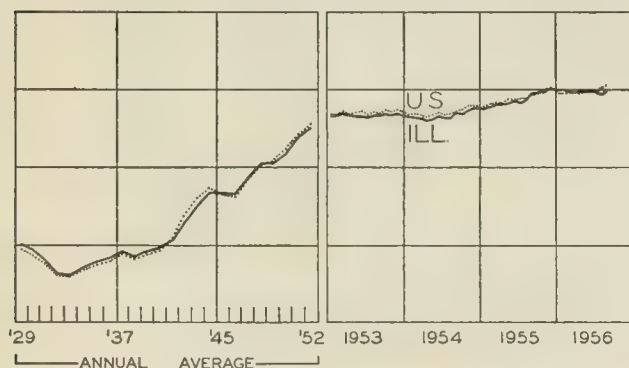
DEPARTMENT STORE SALES



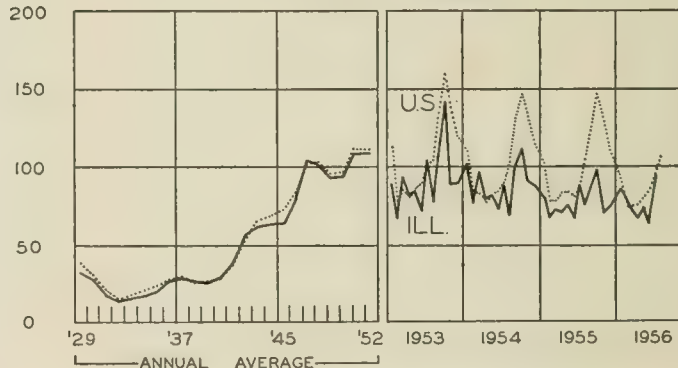
BUSINESS LOANS



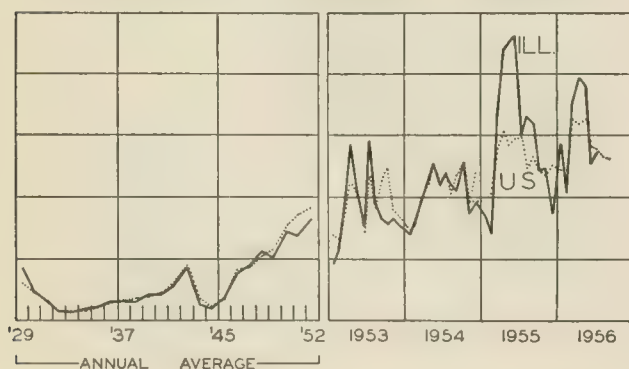
AVG. WKLY. EARNINGS — MANUFACTURING



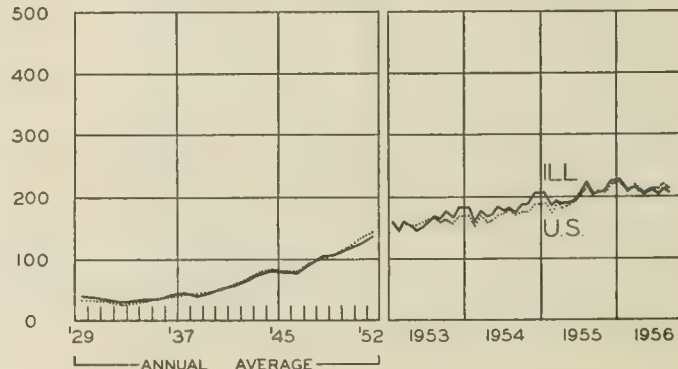
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION





# ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS



PUBLISHED BY . . . .

BUREAU OF ECONOMIC AND BUSINESS RESEARCH  
COLLEGE OF COMMERCE • UNIVERSITY OF ILLINOIS

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## HIGHLIGHTS OF BUSINESS IN NOVEMBER

Economic activity continued at a high level in November, largely unaffected by the international crises that threatened the economies of Europe. Some commodity prices advanced sharply and petroleum stocks were reduced considerably as European countries turned to this country to replace Middle East supplies.

Industrial production, as measured by the Federal Reserve Board's seasonally adjusted index, appears to have equaled or exceeded the record level of 145 percent of the 1947-49 average attained in September and October. Steel output continued above rated capacity and automobile production rose to 581,000 units, nearly 200,000 above the October figure.

Retail sales in November appear to have reached a new high of \$16.8 billion, 3 percent above October and 5 percent above last November, after allowance for seasonal influences. All major categories of retail trade made gains over the previous month, with the automobile and general merchandise sectors showing the greatest advances.

### Employment Down, Unemployment Up

Employment declined to 65.3 million as of mid-November, 900,000 below the previous month. During the same period, unemployment rose 550,000 to 2,460,000.

Most of the decline in employment occurred in agriculture as harvesting was completed in many areas. On the other hand, nonagricultural employment did not expand as it normally does in November.

### Construction Outlays Off

Outlays for new construction put in place fell to \$3.8 billion in November, 8 percent below October, but still 3 percent above the former record November level, that of last year. With adjustment for seasonal factors, the total for the month amounted to an annual rate of \$44.6 billion, the highest since July.

Outlays for the first eleven months of this year were close to \$40.8 billion, about 3 percent above the total for the same period in 1955. This increase was due entirely to cost advances.

The November decline reflected a 4 percent decline in private and a 16 percent decline in public construction outlays. Private housing dropped a seasonal 3 percent from October. This was 11 percent below the record November level of a year ago, but most other categories

of private construction achieved new records for the month. Public outlays were below \$1.2 billion, with all classes below October, but with most at record levels for November.

### Rise in Consumer Debt Continues

Total consumer debt amounted to \$40.2 billion by the end of October, a slight increase over the month-earlier level. Installment debt accounted for about three-fourths of the total.

A "primarily seasonal" decline of \$55 million in automobile paper occurred as repayments on auto debt exceeded new borrowing for the first time since November, 1954. Increases in other consumer goods paper, repair and modernization loans, and personal loans more than offset the decline in auto financing.

On a seasonally adjusted basis, the increase in installment debt amounted to \$187 million in October, well above the adjusted total of \$73 million in September but below the average adjusted monthly rise of \$383 million in the fourth quarter of 1955.

### Sales and Inventories Up

Sales by business in October amounted to \$58.1 billion after a more-than-seasonal increase over the previous month. Sales by manufacturers and by wholesalers accounted for most of the seasonally adjusted increase of \$1 billion.

Inventories of \$87.8 billion reflected a seasonally adjusted increase of \$600 million over September. Most of this greater-than-seasonal increase occurred in the stocks of durable-goods manufacturers. Higher prices continued to play a major role in the inventory rise as they did in the sales increases.

### Personal Income Up

Personal income reached a record annual rate of \$332.6 billion in October, the third consecutive month to see a new high. The October level was \$3.1 billion above September and \$21 billion above October a year ago.

Wages and salaries accounted for \$1.7 billion of the increase over the previous month, with auto industry payrolls providing about a third of this rise as employment expanded following the changeover to 1957 models. About \$750 million of the increase in individual earnings over September occurred in the annual rate of farm proprietors' income, the result of greater soil bank payments.

# ILLINOIS BUSINESS REVIEW

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## Recession in 1957

A year ago there appeared on this page a forecast that there would be a substantial business recession in 1956. Fortunately for almost everybody, that recession did not materialize. Today, circumstances warrant a similar forecast for 1957.

Last year's forecast derived from two simple premises: First, the best that could be hoped for was stability; and second, stability was inconsistent because important elements could not be maintained without a continued rise in activity and income. These premises were not upset by the developments of 1956, except in a way that is likely to reinforce their operation in 1957.

## Rolling Readjustment in 1956

So far in 1956, economic activity did a little better than hold steady, it tilted slightly upward. In recent months, the FRB index of industrial production, at 145 seasonally adjusted, was one point higher than in December, 1955. Gross national product in the third quarter was up 3 percent from the fourth quarter of last year, but most of the advance represented higher prices; in constant dollars, the rise amounted to less than 1 percent.

By far the most important sustaining factor in 1956 was the strong upsurge in business outlays for new plant and equipment. In a burst of optimism business pushed new investment at something approaching the maximum feasible rate, achieving a total of \$35 billion for the year. At that level, they were about \$2½ billion in excess of what would normally be called forth by the growth in over-all activity that had been experienced in 1955.

A secondary stimulant took the form of a strong rise in net foreign investment. Exports forged ahead of imports in the first half of 1956, producing a \$2½ billion increase in the annual rate of net foreign investment from the fourth quarter of 1954 to the third quarter of 1956. Continuation of the upward movement in state and local government purchases of goods and services also helped to offset declines in other parts of the economy. The balancing items on the downside were primarily residential construction and auto purchases.

Anticipations of steel shortages and of prospective price increases gave a speculative incentive for forward buying by both consumers and business. After the strike, the spreading wave of price increases and the tightening of money markets created an aura of inflationary pressure. The impression that inflation posed the only real

threat made it seem reasonable to purchase and hold more than might otherwise be desirable. In this way, the liquidating phases of the short cycles in inventories and in consumer credit were temporarily averted. Developments in 1956 thus conformed to the kind of situation that is referred to as a "rolling readjustment."

## The Crest of the Boom

The implication that the adjustment is preliminary to a new rise does not necessarily hold good for 1957. Looked at in broad perspective, the one decisive fact about the current business situation is that we are riding the crest of a great postwar boom. In many ways, the present situation resembles that of the late 1920's: the time lapse since the end of the war; the worsening position of the farmer; the decline in housing starts; the heavy financing of consumption on credit; the optimism in the stock market; and the disturbed conditions in money and capital markets. This broad view does not in itself tell when a turn might occur.

One kind of evidence bearing on this question may be found in the special article in this issue. Another derives from analysis of the factors that have brought the boom to the present peak.

**Housing.** The decline in home construction is being widely attributed to tightness in the mortgage market. The availability of credit, however, is only one factor in the situation. The 1956 decline occurred in the face of rising incomes. It is doubtful that the tight money effect much more than offset the income effect. If these two reverse in 1957 — and there is no reason to expect money ease unless income turns down — the effects may again be largely offsetting.

An alternative view attributes the decline primarily to the more basic factors affecting construction, namely, rates of family formation and the aggregate stock of houses available as living quarters. These factors have been adverse since early 1955 and will continue so through 1957. Vacancies have been rising steadily though slowly; they will rise more rapidly after the turn. Government experts predict a further decline in home building in 1957 even if over-all activity remains high. The decline would accelerate in a general recession.

**Autos.** The auto industry is generally predicting recoveries of 10 to 15 percent from the 1956 rate of sales. Generally, their predictions are based on the assumption of rising incomes.

The industry, as in 1955, has shiny new models to stimulate sales, but partially offsetting this are higher price tags. It does not have the favorable consumer debt position, possible further relaxation in credit terms, or plentiful credit as in 1955. Moreover, the stock of cars on the road is much larger, and its age distribution has shifted toward the new models; about half of all cars now in use are 1953 models or later.

Another factor that has a distinct effect on auto sales is the stock market. The chances are that stock prices will decline in 1957. A squeeze on profits is apparent in recent reports; profits are lower despite rising sales in practically all lines of business. The squeeze will become severe with any decline in activity.

All things considered, the probabilities definitely favor a further decline in auto sales rather than any recovery. With just a moderate decline in real disposable income, volume might be down 10 to 15 percent next year.

**Inventories.** The annual rate of increase in nonfarm  
(Continued on page 8)



### THE UNIVERSITY OF ILLINOIS

The University of Illinois is one of the great educational institutions of the nation. It offers training in almost every field of human interest and activity, and its research laboratories have made many contributions to industry and agriculture.

On the basis of enrollment, the University ranked fifth in the nation in 1956 with a total of 22,832 full-time students and a teaching staff of 3,648. It has come a long way since March 2, 1868, when it commenced operations with a student body of 50 and a faculty of three. In all, 277,500 students have enrolled in the University during its 88 years of existence.

#### Development and Growth

On February 28, 1867, the University was incorporated as the Illinois Industrial University, the name being changed to the University of Illinois in 1885. The original curricula were limited to four fields and consisted of courses in the colleges of Arts, Sciences, Agriculture, and Engineering.

As the University grew in size, new fields of study were introduced. Between 1892 and 1915 the Graduate College, and the colleges of Pharmacy, Law, Medicine, Dentistry, Education, Liberal Arts and Sciences, and Commerce and Business Administration were established as parts of the University. The College of Fine and Applied Arts made its appearance in 1931, and in 1944 the College of Veterinary Medicine was founded.

Enrollment reached its peak in the fall of 1947 when the tide of returning veterans swelled attendance to an all-time high of 29,944—of whom 2,767 were in off-campus classes. Undergraduate divisions were established in 1946 at Galesburg and at Navy Pier in Chicago, but enrollment never reached expectations at the Galesburg branch and it was closed in 1949.

#### Educational Facilities

On the main campus of the University, located at Champaign-Urbana, are found 14 colleges and schools in addition to various institutes, bureaus, experimental stations, and State surveys. More than 1,800 liberal arts and professional courses are offered, and the Division of University Extension offers correspondence courses for college credit.

The Chicago Professional campus accommodates the University's medical, dental, and pharmacy colleges, the School of Nursing, and research and service units in the health sciences. Also located in Chicago is the Undergraduate Division at Navy Pier which offers the first two years of college work.

The University Library includes nearly 3.7 million catalogued items—more than any other state university in the nation. There are, in addition, thousands of miscellaneous items not fully catalogued but available for use.

The University of Illinois Airport is one of the finest institutional airports in the country. It covers 771 acres, has three 5,300-foot concrete runways, and is capable of handling any aircraft.

#### Services to the Public

The people of Illinois have invested more than \$135 million in their State University, and on the average each Illinois citizen pays a little more than a penny a day to operate it. In return, the University not only provides the training needed by a modern industrial nation, but it provides facilities for practical research as well. It is estimated that cash returns to the State on the University's discoveries total well over \$500 million a year.

Business enterprises have found the facilities and services of the University extremely useful—and profitable. The Division of University Extension conducts conferences and short courses on subjects of timely interest to businessmen. The various bureaus and institutes provide periodical and other publications on new products, new methods of solving business problems, as well as other practical research. A few of the typical results of such research projects are the betatron, which splits atoms, is used in cancer research, and delivers a powerful X-ray capable of penetrating 20 inches of steel; the "Illiac," an amazing electronic computer; and a controlled cooling process which eliminates metal fatigue.

Of primary interest to farmers are the activities of the Agricultural Experiment Station and the Agricultural Extension Service. The Illinois Department of Agriculture has estimated that the University has raised the agricultural income of the State by over \$100 million a year through the introduction of crop rotation and fertilization. Many other contributions have also been made—soybeans, first planted in the University's greenhouses, the elimination of alfalfa failure, the test-feeding of cows, and a hog hygiene project have resulted in an increase of almost \$350 million a year in State farm incomes.

The campus of the Chicago Professional Colleges is part of the State Medical Center District. Here, the University's medical, dental, and pharmacy colleges, as well as research and service units, provide many public health services to the people of Illinois.

#### Growth and Expansion

The University is a major investment of the State and must keep growing to meet the needs of its people. The coming deluge of students is expected to break all previous enrollment records. In September, 1956, there were 27,632 students enrolled in the University of Illinois—19,223 on the Champaign-Urbana campus, 4,135 at Navy Pier, 1,689 in the Chicago Professional Colleges, and 2,585 in off-campus courses. Estimates of future enrollments predict a total of 33,400 students on the campuses by the fall of 1963, and even conservative estimates allow for 50,000 by 1970.

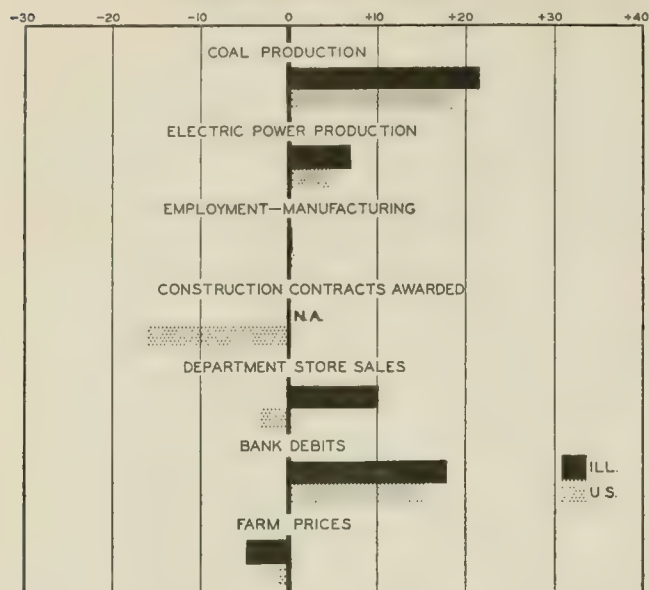
Such an increase will exert pressure not only on classroom facilities, but on the faculty and housing situation as well. The University must also provide for continuation of its services beyond teaching—the extension and research which have given the industrialists and farmers of Illinois traceable cash returns exceeding each year all that the State has spent on the school since its founding.

# KNOW YOUR STATE

# STATISTICAL SUMMARY OF BUSINESS ACTIVITY

## SELECTED INDICATORS

Percentage changes September, 1956, to October, 1956



N.A. Not available.

## ILLINOIS BUSINESS INDEXES

Item	Oct. 1956 (1947-49 =100)	Percentage Change from	
		Sept. 1956	Oct. 1955
Electric power <sup>1</sup> .....	217.9	+ 6.9	+ 6.2
Coal production <sup>2</sup> .....	94.0	+21.5	+13.7
Employment—manufacturing <sup>3</sup> .....	108.5	+ 0.1	- 0.3
Weekly earnings—manufacturing <sup>3</sup> .....	154.4 <sup>a</sup>	+ 4.2	+ 4.7
Dept. store sales in Chicago <sup>4</sup> .....	115.0 <sup>b</sup>	- 3.4	- 1.7
Consumer prices in Chicago <sup>5</sup> .....	121.1	+ 0.7	+ 1.8
Construction contracts awarded <sup>6</sup> .....	n.a.		
Bank debits <sup>7</sup> .....	178.6	+17.9	+13.3
Farm prices <sup>8</sup> .....	79.0	- 4.8	+ 5.3
Life insurance sales (ordinary) <sup>9</sup> .....	249.4	+18.1	+26.0
Petroleum production <sup>10</sup> .....	134.1	+ 3.2	+ 4.5

<sup>1</sup> Fed. Power Comm.; <sup>2</sup> Ill. Dept. of Mines; <sup>3</sup> Ill. Dept. of Labor;  
<sup>4</sup> Fed. Res. Bank, 7th Dist.; <sup>5</sup> U. S. Bur. of Labor Statistics; <sup>6</sup> F. W. Dodge Corp.; <sup>7</sup> Fed. Res. Bd.; <sup>8</sup> Ill. Crop Rpts.; <sup>9</sup> Life Ins. Agcy. Manag. Assn.; <sup>10</sup> Ill. Geol. Survey.

<sup>a</sup> September data; comparisons relate to August, 1956, and September, 1955. <sup>b</sup> Seasonally adjusted. n.a. Not available.

## UNITED STATES MONTHLY INDEXES

Item	Oct. 1956	Percentage Change from	
		Sept. 1956	Oct. 1955
	Annual rate in billion \$		
Personal income <sup>1</sup> .....	332.6 <sup>a</sup>	+ 0.9	+ 6.7
Manufacturing <sup>1</sup> .....			
Sales.....	338.4 <sup>a</sup>	+ 2.2	+ 6.0
Inventories.....	50.7 <sup>a, b</sup>	+ 1.2	+11.7
New construction activity <sup>1</sup> .....			
Private residential.....	16.2	- 3.9	-10.5
Private nonresidential.....	16.8	- 1.9	+ 7.7
Total public.....	16.5	- 3.0	+12.1
Foreign trade <sup>1</sup> .....			
Merchandise exports.....	18.2 <sup>c</sup>	- 0.1	+20.9
Merchandise imports.....	11.9 <sup>c</sup>	- 5.5	+ 4.8
Excess of exports.....	6.3 <sup>c</sup>	+11.7	+69.7
Consumer credit outstanding <sup>2</sup> .....			
Total credit.....	40.2 <sup>b</sup>	+ 0.2	+ 9.8
Installment credit.....	30.8 <sup>b</sup>	+ 0.3	+10.0
Business loans <sup>2</sup> .....	29.9 <sup>b</sup>	+ 0.7	+18.3
Cash farm income <sup>3</sup> .....	37.3	+16.4	+ 2.2
	Indexes (1947-49 =100)		
Industrial production <sup>2</sup> .....			
Combined index.....	145 <sup>a</sup>	0.0	+ 1.4
Durable manufactures.....	165 <sup>a</sup>	+ 0.6	+ 2.5
Nondurable manufactures.....	130 <sup>a</sup>	+ 0.8	+ 0.8
Minerals.....	128 <sup>a</sup>	0.0	+ 4.1
Manufacturing employment <sup>4</sup> .....			
Production workers.....	107	+ 1.1	- 0.4
Factory worker earnings <sup>4</sup> .....			
Average hours worked.....	102	- 0.2	- 1.2
Average hourly earnings.....	152	+ 1.0	+ 5.8
Average weekly earnings.....	155	+ 0.7	+ 4.5
Construction contracts awarded <sup>5</sup> .....	223	-15.8	- 8.4
Department store sales <sup>2</sup> .....	122 <sup>a</sup>	- 5.4	0.0
Consumers' price index <sup>4</sup> .....	118	+ 0.5	+ 2.4
Wholesale prices <sup>4</sup> .....			
All commodities.....	116	0.0	+ 3.5
Farm products.....	88	- 1.9	+ 1.8
Foods.....	104	- 0.4	+ 3.4
Other.....	124	+ 0.4	+ 3.9
Farm prices <sup>3</sup> .....			
Received by farmers.....	86	- 1.1	+ 1.2
Paid by farmers.....	115	0.0	+ 2.7
Parity ratio.....	82 <sup>d</sup>	0.0	0.0

<sup>1</sup> U. S. Dept. of Commerce; <sup>2</sup> Federal Reserve Board; <sup>3</sup> U. S. Dept. of Agriculture; <sup>4</sup> U. S. Bureau of Labor Statistics; <sup>5</sup> F. W. Dodge Corp.

<sup>a</sup> Seasonally adjusted. <sup>b</sup> As of end of month. <sup>c</sup> Data are for September, 1956; comparisons relate to August, 1956, and September, 1955. <sup>d</sup> Based on official indexes, 1910-14 = 100. n.a. Not available.

## UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1956					1955
	Nov. 24	Nov. 17	Nov. 10	Nov. 3	Oct. 27	Nov. 26
Production:						
Bituminous coal (daily avg.).....thous. of short tons..	1,828	1,797	1,713	1,765	1,740	1,813
Electric power by utilities.....mil. of kw-hr.....	11,439	11,589	11,522	11,487	11,391	10,727
Motor vehicles (Wards).....number in thous.....	141	157	153	136	126	174
Petroleum (daily avg.).....thous. bbl.....	7,195	7,165	7,050	6,981	6,998	6,859
Steel.....1947-49=100.....	143	143	143	145	145	140
Freight carloadings.....thous. of cars.....	651	764	773	800	817	677
Department store sales.....1947-49=100.....	148	151	137	124	128	146
Commodity prices, wholesale:						
All commodities.....1947-49=100.....	115.7	115.7	115.4	114.9	115.0	111.2 <sup>a</sup>
Other than farm products and foods.....1947-49=100.....	124.0	124.0	123.6	123.0	123.0	119.4 <sup>a</sup>
22 commodities.....1947-49=100.....	93.0	92.0	91.2	90.6	90.1	88.8
Finance:						
Business loans.....mil. of dol.....	30,449	30,439	30,121	29,931	29,692	25,833
Failures, industrial and commercial.....number.....	207	240	219	271	267	205

Source: Survey of Current Business, Weekly Supplements.

<sup>a</sup> Monthly index for November, 1955.



# RECENT ECONOMIC CHANGES

## West European Boom

Business developments in Western European countries during the first half of 1956 were roughly similar to those in the United States. The rate of advance in industrial production slowed from the boom rates of 1954 and 1955, unemployment was at exceptionally low levels, and prices tended to move upward.

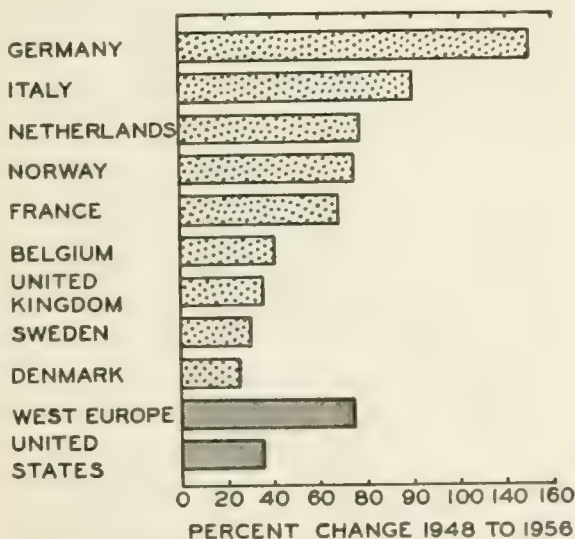
For Western Europe as a whole, industrial output in the first half was up by 6 percent. Advances in output were better than average in the first half of the year in France, Germany, Belgium, and Italy, and less than average in the Netherlands, Norway, and Sweden where labor was in short supply.

With the exception of 1951-52, Western Europe's industrial production has moved up steadily each year during the postwar period. This is in contrast to the United States, which suffered setbacks in 1949 and 1954. For the years 1948 through the first half of 1956 production in Western Europe increased 74 percent, about twice the percentage increase in this country. As shown by the chart, phenomenal gains occurred in Germany and Italy. However, these countries were among those hit hardest by the war and entered the postwar period with exceptionally low levels of output. Only in Sweden and Denmark was the growth in postwar output less than in this country.

## Housing Vacancy Rate Up

The proportion of vacant dwelling units available in the third quarter of 1956 increased moderately from the first and second quarter rate. In the third quarter, 2.8 percent of houses available for sale or rent were vacant, compared with 2.6 percent in the first quarters of the year, according to Census Bureau estimates. This was up from 2.3 percent in the third quarter of last year. Since April of 1950 when the Census Bureau began compiling the current vacancy rate series, the rate on units for sale or rent has increased by about three-fourths. The increase was due to a rise in rental vacancies, as units for sale have consistently been reported at only about one-half of 1 percent of the housing stock.

INDUSTRIAL PRODUCTION



Sources: United Nations and Federal Reserve Board

The number of nonfarm households increased by 10.5 million between 1947 and early 1956 whereas the cumulative total of new nonfarm dwelling units started over this period was 10.1 million. The latter figure, however, does not take account of houses demolished during the period, of new dwellings created through the remodeling of older single units into multiple units, or conversion of nonresidential units into residences. In recent years home construction has run ahead of household formation. Between April of 1955 and 1956, for example, 1.2 million dwelling units were started compared with an increase of less than 900,000 in the number of households.

## GNP Advance Continues

Output of goods and services amounted to a seasonally adjusted annual rate of \$413.8 billion in the third quarter, a rise of \$5.5 billion from the second quarter. As in the second quarter of 1956, rising prices accounted for the bulk of the advance with only a moderate change occurring in physical volume.

The pattern of change between the second and third quarters was similar to that between the first and second quarters. Total consumer expenditures continued upward as higher outlays for nondurable goods and services more than offset a further reduction in durable goods expenditures. Construction expenditures were maintained at the second quarter rate and the rate of inventory accumulation was reduced, but investment in producers' durable equipment continued its sharp upward movement to carry total private investment to a new high. Net foreign investment also contributed to the advance in GNP, as exports were maintained considerably above imports.

In the government sector, purchases of goods and services rose more sharply than earlier this year mainly because of a bulge in outlays for national security.

GROSS NATIONAL PRODUCT OR EXPENDITURE  
(Seasonally adjusted, billions of dollars at annual rates)

	3rd Qtr. 1956	2nd Qtr. 1956	3rd Qtr. 1955
Gross national product.....	413.8	408.3	396.8
Personal consumption.....	266.8	263.7	257.8
Durable goods.....	33.0	33.4	37.2
Nondurable goods.....	134.0	132.3	127.6
Services.....	99.7	98.0	92.9
Domestic investment.....	65.1	64.7	62.3
New construction.....	33.6	33.6	33.5
Producers' durable equipment	29.5	27.5	25.0
Change in business inventories	2.0	3.5	3.7
Nonfarm inventories only..	2.4	3.9	3.4
Foreign investment.....	1.7	1.2	.2
Government purchases.....	80.2	78.7	76.5

INCOME AND SAVINGS

	1956	1955
National income.....	n.a.	338.7
Personal income.....	327.0	322.9
Disposable personal income.....	288.2	284.9
Personal saving.....	21.4	21.2

## Average Incomes Rise in 1955

American men earned an average of \$3,400 in 1955, a 5 percent gain over 1954, according to the Bureau of the Census. Women, on the other hand, averaged only \$1,100, the same as in 1954. Since 1945, the average income of women has moved up only 24 percent compared with an increase of 85 percent for men. Wage rates for women have risen substantially since the war but the rise in average income has been restricted because of the increased proportion of married women in the labor force, many of whom work only part time.

# CURRENT IMPLICATIONS OF THE 21 STATISTICAL INDICATORS

LEONARD H. LEMPERT\*

The 21 statistical indicators are the result of an intensive study of more than 800 statistical series by the National Bureau of Economic Research to discover those that most consistently paralleled the major ups and downs in business in the United States from 1857 through 1938.

The 21 indicators tentatively chosen as most representative of business-cycle movements were broken down into three major groups. The first group includes eight indicators that consistently moved up and down prior to general business. The second group includes eight indicators that consistently moved up and down at about the same time as general business. The third group includes five indicators that moved up and down after general business. These three groups are designated as leading, roughly coincident, and lagging respectively.

What is the "general business" that the three groups of indicators respectively lead, coincide with, or lag? "General business" from month to month cannot be found in any single statistical series. Faced with this problem, the National Bureau of Economic Research investigated hundreds of different series of business statistics and numerous contemporary business records since 1857 and decided upon those months when the weight of the available evidence suggested definite highs and lows had been reached. It is these months, technically called "reference peaks" and "reference troughs," that the three groups of the statistical indicators have been found to lead, coincide with, or lag.

The 21 series chosen are those that have *most* consistently reached highs and lows ahead of, along with, or after these "reference" months. But no one indicator has done so invariably. Exceptions have occurred often enough to make dependence on one or even a few of these indicators especially hazardous. The danger is lessened considerably by recourse to the larger number of 21 series, where reinforcing movements permit the emergence of a more reliable picture. To know what is actually occurring is the first step in making adequate use of the 21 indicators as a forecasting device. For if the sequence of developments followed in the past by the three groups of indicators continues, knowing where we are is tantamount to knowing what developments can be expected next.

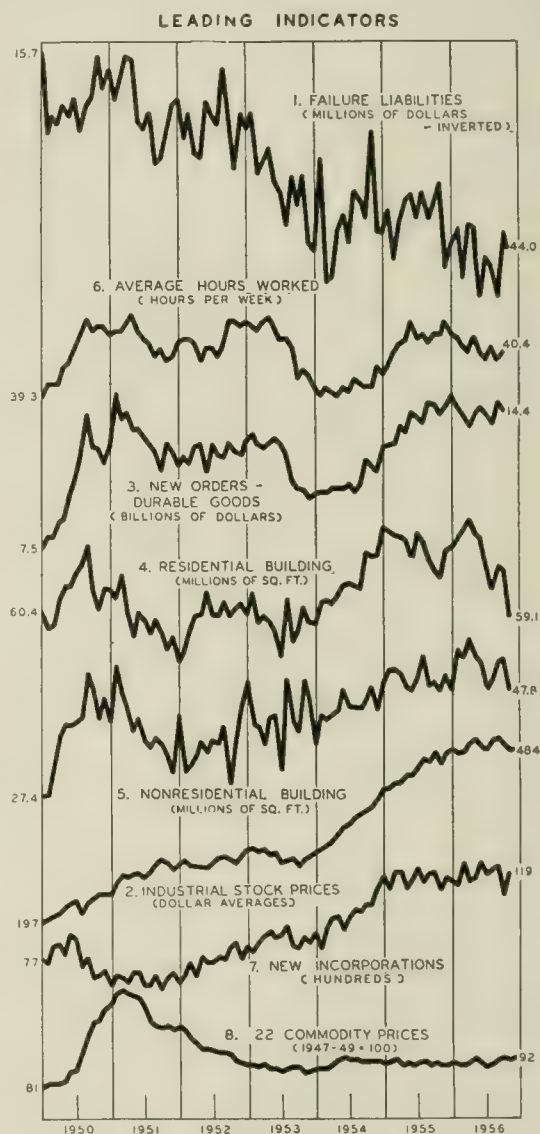
## Current Position of the Indicators

Let us take as a starting point the most recent reference date, which was the business-cycle trough (low) reached in August, 1954.

*The Leading Indicators.* A look at the chart of the leading indicators shows that by August, 1954, all eight of these series had moved upward to levels well above earlier lows. These upward movements anticipated the rise in general business activity that began at that time.

Since then, signs of weakness have occurred in all but the series of basic commodity prices, which has re-

mained virtually unchanged. The movement of inverted failure liabilities, although distorted by erratic month-to-month changes, has been downward since October, 1954. Average hours worked in manufacturing industries reached a peak early in 1955, more or less leveled off during the remainder of 1955, and in 1956 have gradually declined. New orders for durable goods advanced rapidly during 1955, peaked in December, and have fluctuated within a range of 2.5 percent to 15 percent below that peak throughout 1956 without establishing a clear trend. The movement of residential building contract awards, with the exception of strength early in 1956, has been downward since December, 1954. A general tendency in the movements of nonresidential contract awards is difficult to pin down because the series has moved so erratically. At the moment, it is below its earlier 1956 high. Industrial common stock prices rose rapidly from



Source: Statistical Indicator Associates. All series are seasonally adjusted except the two price series, common stocks and basic commodities. The failure liabilities series is inverted.

\*Mr. Lempert is Director of Statistical Indicator Associates (Great Barrington, Massachusetts), publishers of a weekly report on contemporary business-cycle developments based on the 21 statistical indicators. Statistical Indicator Associates is in no way associated with the National Bureau of Economic Research, Inc., which is a non-profit organization devoted to fundamental economic research and which leaves to others the everyday practical application of its findings.



August, 1954, through April, 1956, and since then have more or less leveled off. New incorporations leveled off during 1955, moved slowly upward in the first five months of 1956, and weakened slightly in the five months thereafter.

In general, the leading indicators provide a picture of moderate weakness.

*The Coincident Indicators.* As of August, 1954, most of the coincident indicators had been sliding downward for many months. The subsequent upward movements beginning from about that time account for the placing of the reference trough at that date. The trends of all coincident indicators during 1955 were clearly upward.

Their movements during 1956 have not shown such unanimity. Moreover, an unsettling month-long steel strike in July further disrupted the picture. The year as a whole has shown continuing strength in employment, inverted unemployment (after a shaky start), gross national product, and nonfood wholesale prices. The tendency of corporate profits has been to decline. Hesitant may best describe industrial production and freight carloadings. Bank debits outside New York City were strong through most of the year but in recent months have shown at least temporary signs of weakness.

In general, the coincident indicators are characterized by a hesitancy that was not apparent in 1955.

*The Lagging Indicators.* The performance of the lagging indicators at the August, 1954, reference trough is an example of the occasional failure of these indicators to move as they should. Both personal income and retail sales stopped falling early in 1954 and moved upward for several months prior to August; installment credit reached a low in June. The remaining two laggings did perform in a manner consistent with their classification. Manufacturing inventories did not turn upward until October, 1954; bank rates started upward even later.

The movements of all five laggings have been generally upward ever since. Retail sales showed some temporary weakness early in 1956 and September and October, 1956, sales showed some decrease from August; but it is too early to speak of a downward trend. As a whole, the laggings are at close to maximum strength.

## Future Prospects

The weakness in the leaders, the hesitancy in the coincident series, and the strength of the laggings suggest the economy is at or near the peak of a business-cycle recovery. The situation is similar to that at mid-1951 and mid-1953.

This is seen most clearly in the percentage expanding charts of the three groups of indicators. These charts are based on simple arithmetic. If four of the eight leaders are classified as expanding in a particular month, the percentage expanding for the leading group for that month is 50 percent; if six of the eight coincident series are expanding, the percentage expanding for the coincident group is 75 percent; if none of the five laggings is expanding, the percentage expanding for the lagging group is 0 percent.

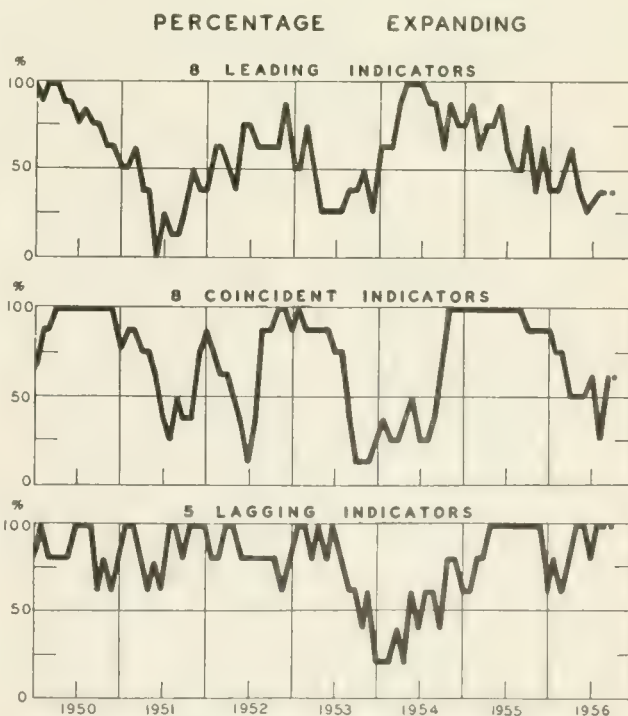
A series is expanding if its moving average increases. The lengths of the moving averages used for the different indicators varies from two to six months, depending on which number best eliminates erratic movements. Moving averages are not used for manufacturing inventories and installment credit, because the original data usually move smoothly from month to month.

The reader will note that as of mid-1951 and mid-1953, just as today, there had been a clear-cut downturn in the leaders followed by a downturn in the coincident indicators. No major downturn of the economy appeared to follow the warning signs in the first half of 1951. The warning signs in the first half of 1953, however, were followed by a downturn that subsequently reached large enough proportions to be classified as a cyclical recession.

Actually, there were major adjustments in 1951-52 as well as in 1953-54. For example, although the 1953-54 period is often referred to as an "inventory" recession, the "inventory" component of gross national product fell only \$7.6 billion (9.6 percent) from the second quarter of 1953 through the third quarter of 1954; it fell \$10.9 billion (15.0 percent) from the second quarter of 1951 through the third quarter of 1952.

In spite of weaknesses in many phases of the economy in 1951-52, a cyclical recession was avoided as a result of circumstances arising out of the Korean War. Substantial increases in government expenditures of \$15.3 billion (at an annual rate) in late 1951 and through the first three quarters of 1952 served as a stimulus that more than counteracted the weaknesses occurring in other segments of the economy. No such prop was forthcoming in the last half of 1953 and the first three quarters of 1954; on the contrary, government expenditures decreased at an annual rate of \$13.5 billion. It was basically these differences in Federal expenditures that distinguished the two periods.

It is apparent, then, that the warning signs at mid-1951 were as correct as those in 1953 in anticipating economic difficulties; they did not, however, and could not, anticipate the stepped-up efforts needed in waging the Korean War and their subsequent stimulus to the economy. With warning signs before us today similar to those at mid-1951 and mid-1953, the major question is whether or not the difficulties they are forecasting will or will not be avoided by increases in government spending.



Source: Statistical Indicator Associates

At the moment, the role that Federal expenditures will play in the next several months seems to be one of moderate increases. Earlier official estimates of net Federal cash payments for fiscal 1957 contemplated an increase of \$1.9 billion. Purchases in the first quarter were already at an annual rate \$1.1 billion above those of fiscal 1956. A further increase in the last three quarters of fiscal 1957 and the first two quarters of fiscal 1958 of \$2.5 billion (at an annual rate) thus seems reasonable. A stimulus of this size does not seem great enough to prevent a period of at least minor adjustments in the near future in the economy as a whole. These adjustments may very well be large enough to initiate a decrease in gross national product by the end of 1957.

Should the current international tension erupt into a situation where more direct United States participation is necessary, the direction of future business activity obviously will be upward.

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## **Recession in 1957**

(Continued from page 2)

inventories in the third quarter was \$2.4 billion. This has been widely hailed as bringing the inventory problem under control while the economy is still moving up. Actually, the rate of increase is not so moderate as it seems, since all of the increase occurred in less than two months. There was no increase during the steel strike, and the rate of increase attained afterwards was twice as high as the \$2.4 billion average for the quarter.

Business inventories have moved to a position of moderate surplus in relation to the flow of goods to consumers. They are continuing up in the face of relatively stable demand. This condition cannot long continue; so inventories must definitely be counted a negative factor.

It is difficult to pinpoint a possible inventory reversal. Disturbances abroad help confuse the picture. The Christmas trade and auto sales in December are important. High sales would moderate the accumulation and sustain current policy; poor sales would call for quick action to get inventories down. However, business is cautious and, faced with financing problems, will probably try to reduce the rate of accumulation in any case.

*Business Capital Outlays.* Business investment in new plant and equipment is still regarded as an expansionary factor for 1957. The Commerce-SEC survey indicates a probable further small increase in the first quarter.

However, capital expenditures are themselves running too high on the basis of the stock-flow relationships involved in capacity building. At the fourth quarter rate of over \$37 billion, they are far too high in view of the general stability of 1956. Capacity is already sufficient to produce all that consumers can buy plus an increment for inventory plus a large military program plus unprecedented additions to capacity. The question is, How much capacity should be added in 1957 with growth in the economy at a comparative standstill?

The current capital boom is based primarily on programs authorized late in 1955 or early this year. Unless new authorizations can soon be justified, the programs are bound to run down. A recent *Newsweek* survey indicated that new appropriations by large corporations in the third quarter were 8 percent under the same quarter of 1955. The auto industry is already past its peak; General Motors alone expects a \$300 million decline from its billion dollar program of 1956. The underlying rela-

tionships suggest that curtailments are likely in most industries.

What is happening appears to support this view. New orders for durable goods have been comparatively steady at a level just under the peak so far in 1956; but since prices are up, the volume provided for by new orders has been on the downgrade. Construction contracts have been declining steadily since early in the year, even without the price adjustment. Operating in the same direction is the worsening of industry's ability to finance new investment. The squeeze on profits, the loss of corporate liquidity, the difficulty of getting funds even at high rates of interest—all tend to place limitations on expenditures. It is hard to see stability in this picture after early 1957, let alone any further increases.

*Government Programs.* The only item on the favorable side in 1957 consists of advancing government programs—state and local as well as Federal. Government purchases of goods and services are projected upward on the basis of budget reports at a rate close to \$4 billion, of which perhaps half represents price increases. In the event of greater international disturbances, of course, changes in these programs could dominate the entire economic picture. But aside from this possibility, in the event of a business decline, the projected rise would be accelerated; and in addition, transfer payments would add several billion to support the economy. In an accelerating downturn, government expenditures might rise by an annual rate of \$10 billion from the fourth quarter of 1956 to the fourth quarter of 1957. In such a situation, with all forms of private capital formation moving together, this rate of increase would merely moderate the cumulative deflationary effects.

There is little basis for a forecast of net foreign investment. Difficulties in Europe suggest a possible decline rather than any further increase. Great Britain is borrowing heavily, but for the purpose of enlarging reserves rather than increasing imports. For the present forecast, it is assumed that this item will hold to its current level.

## **The Combined Effects**

On this basis, real gross national product may be expected to reach a new high in the fourth quarter and may remain close to that level in the first quarter of 1957. After the turn, the recession would progress throughout 1957. By the end of the year it may extend to \$25 billion in real gross product, even allowing for the moderating influences now in prospect.

All the highly variable segments of the private economy are vulnerable at the present time, and all will go down together as soon as a decline gets under way. Earlier this year it looked as if the short inventory cycle would reach its depressed stage while the longer cycle in fixed capital investment was still moving up. With the recent rebound in accumulation after the steel strike, the inventory cycle again shows the same kind of imbalance as the investment cycle. The two are in phase and may be expected to make cumulative contributions to any decline. The downward phase of the housing cycle would be reinforced and reinforcing. Autos and other consumer durables would contribute their own cyclical declines. In one respect, therefore, this forecast is more extreme than that of a year ago. There is no end of the decline in sight as of the end of 1957.

This conclusion is offered with diffidence in view of the failure of last year's forecast. This feeling is enhanced by the fact that anything can happen in a world so disturbed as the present.

VLB



# BUSINESS BRIEFS

## PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

### Frozen Food Expansion

With 1955 production of principal frozen foods about four and a half times the 1946 output, the Agricultural Marketing Service foresees continued expansion of this industry as a whole. Although frozen foods currently constitute only a small proportion of the total food supply, population increases, technological improvements in frozen food processes, and growing popularity of convenience foods indicate not only volume growth but also a greater share of the total food market.

The rapid postwar growth of the frozen food industry did not result in uniform increases in all its products. Although frozen vegetables and non-citrus fruits accounted for over half of total production in 1946, their output in 1955 was less than a fourth of the total. In contrast, frozen juice concentrate contributed a relatively insignificant portion of total production until 1949, but by 1955 it accounted for nearly 50 percent. Dominating this group was orange juice concentrate, which used about 40 percent of the 1954-55 orange crop. Quick frozen meats and poultry had also assumed an important role in the frozen food field, accounting for over 10 percent of total 1955 output. However, this quantity is still only a small part of total meat and poultry production.

Other principal frozen foods have not retained their 1946 positions of relative importance. The output of frozen seafoods has remained about constant. Similarly, the production of prepared frozen foods remained fairly stable for several years and amounted to less than 10 percent of the total frozen food output in 1955. However, this category is currently the fastest growing segment of the industry.

### Do It Yourself

*How to Build a Flexboard Garage*, a 36-page illustrated booklet published by Johns-Manville of 22 East 40th Street, New York 16, gives a step-by-step garage picture. Hints on financing and building codes, construction problems from foundation to roofing, and suggestions for other home finishing touches such as cupolas, lamp posts, and fences are included in this 25-cent booklet.

"Roll your own" steel roofing is now available for farmers and do-it-yourself homeowners. The 31-foot rolls of galvanized, corrugated steel roofing can easily be rolled across the roof and have edges that are treated with factory-applied windproof and weatherproof sealer. The manufacturer, Ceco Steel Products Corporation, 5601 West 26th Street, Chicago 50, points out that the crimped nailing edge helps provide tighter roofing.

### Housing Market Mood

Fewer purchases, higher average prices, smaller loans in relation to prices, and somewhat shorter average maturities characterized the veterans' housing market in September, 1956, as compared with a year earlier. According to the United States Department of Commerce, the 43,000 houses purchased with the aid of primary home loans made by the Veterans' Administration in September, 1956, amounted to about four-fifths of the number purchased in September, 1955. Accompanying the decline in activity were increases in the average purchase prices of both new-and-proposed and existing homes. In 1956 new-and-proposed homes had an average

price of \$13,654, an advance of 9 percent over 1955, whereas the average price for existing homes increased by 5 percent to \$12,205.

Loan amounts relative to prices decreased from 95 percent in 1955 to 93 percent in 1956 for new-and-proposed homes and from 88 percent to 86 percent for existing homes. Average maturities were shorter; the proportion of new-and-proposed homes with maturities of 25 years and under rose from about 36 percent in 1955 to 43 percent in 1956.

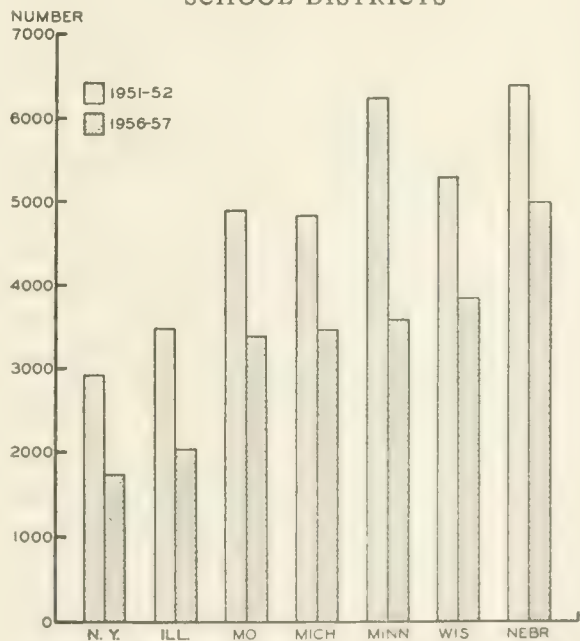
### Fewer School Systems

School district governments in the United States totaled 51,881 at the beginning of the 1956-57 school year, a decrease of 23 percent from the 1951-52 total of 67,346, according to a Bureau of the Census advance release. During the same period, public school systems operated by state, county, municipal, and township governments or jointly by two or more school districts increased from 2,409 to 2,521.

The marked decrease in number of school districts resulted mainly from consolidation and reorganization of rural districts. Seven states (see chart) had reductions of more than 1,000 school districts over the five-year period. Although smaller numbers of school districts were involved, an additional 11 states showed cuts of 10 percent or more.

Governmental units responsible for public schools vary widely throughout the United States. In 28 states all public schools are operated by independent school districts. At the other extreme are five states and the District of Columbia in which local schools are administered by some unit of government other than an independent school district. The remaining 15 states have both independent school districts and school systems administered by other governmental units.

SCHOOL DISTRICTS



Source: Bureau of the Census, "School Districts in 1956-57."

# LOCAL ILLINOIS DEVELOPMENTS

Seasonal factors dominated business movements in Illinois during October. Sharp rises were recorded in coal production, bank debits, and life insurance sales. State and Chicago department store gross sales rose 10 percent or more.

Comparisons with October, 1955, showed increased activity in all indicators with the exception of slight declines in manufacturing employment and Chicago department store sales. Coal production and bank debits gained more than 10 percent; life insurance sales and business loans advanced by one-fourth.

## Big Muddy Project

Tentative plans for the mile-and-a-half-long dam on the Big Muddy River near Benton are near completion, according to Thomas B. Casey, Illinois Chief Waterways Engineer. The proposed Rend Lake, with its 25 to 35 foot depth and 13,000 to 20,000 acre coverage, would help provide an adequate water supply for new industry and for the needs of communities near the river.

Chief Engineer Casey said the proposed site for the earthen dam took advantage of the shortest distance across the stream as well as of the best available foundation conditions. Suggested dam designs called for a major spillway to handle ordinary floodwaters, a three-to-five-foot safety installation to adapt the structure to more threatening water levels, and a stream-level outlet to allow downstream flows in the event water levels fall below the spillway.

Cost and financing of the multi-million dollar impoundment have not been fixed. Casey said cost, involving such factors as right of way, clearing, highways, and utilities, would be estimated at the completion of final dam and lake plans.

## Motor Fuel Demands

Annual Illinois motor fuel consumption increased 32 percent to 2,765 million gallons from 1949 to 1955, according to the American Petroleum Institute. This fell below the 45 percent increase reported for the United States. During this period, Illinois's yearly percentage gains were less than the nation's, with the exceptions of 1950 when Illinois had a 9 percent increase as compared with the nation's 8 percent rise and of 1954 when both advanced 3.5 percent.

The continuous gains in motor fuel consumption were due mainly to the growing number of vehicles on the roads. A relatively consistent demand pattern was noted. Both Illinois and the United States recorded yearly demand lows in January and February. Demand peaks were not so consistent. May and June were top months for Illinois with the exception of 1952 when October consumption exceeded that of June. The national picture showed June, July, and August to be the peak months, with October breaking onto the scene in 1951 and 1952.

## Corn on the Campus

A record corn yield of 128 bushels per acre was harvested on the University of Illinois Morrow plots this year. Professor M. B. Russell, head of the Agronomy Department at the University, pointed out that the record crop was harvested from a plot of land that had grown corn continuously since 1876, with a manure-lime-phosphate treatment since 1904 plus extra nitrogen, potash, and phosphate in 1955 and 1956.

This cultivation practice was only one of four used this year on the section of the Morrow plots where corn has been grown continuously for 81 years. The other three were (1) omission of all fertilizer, yielding 29 bushels per acre; (2) omission of all fertilizer until 1955 and 1956, with a yield of 113 bushels per acre; and (3) fertilization since 1904, producing 96 bushels per acre.

Professor Russell indicated that the remarkable yield recovery on the Morrow plots cannot be expected on all kinds of soil. A soil with natural physical qualities similar to those found in central Illinois soils could be expected to recover, but many of the worn-out Illinois soils could not be rejuvenated in this manner. It was also noted that the amount of plant food added per acre in 1955 and 1956 to the previously untreated plot, designed to remove all plant-food deficiencies, would not be practical for commercial farming.

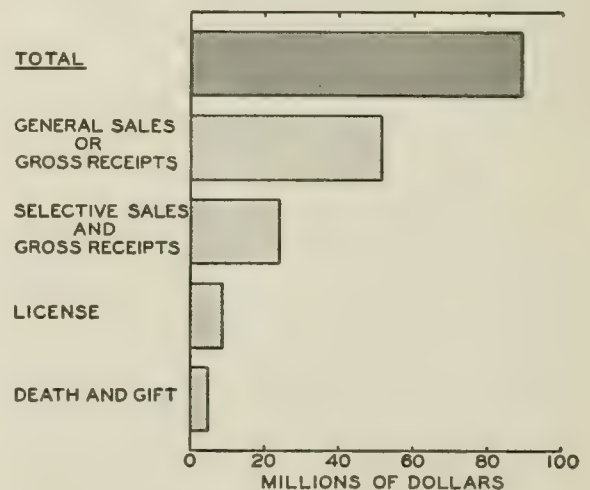
## State Tax Gains

State tax revenues jumped 16 percent to a total of \$641 million during the last fiscal year. Preliminary totals released by the United States Bureau of the Census indicate that, as a result of this increase from the 1955 total of \$552 million, Illinois advanced from sixth to fifth highest state in total tax collections. However, on a per capita basis, Illinois was preceded by 37 states.

Substantial increases were recorded in the major taxes in 1956 (see chart). General sales or gross receipts tax revenues increased 25 percent. Major factors contributing to this advance were higher sales and an increase in rate, boosting the retailers' occupation tax receipts by \$45.5 million. The new use tax yielded \$6 million; however, it has been declared unconstitutional by the State Supreme Court, and the final disposition of these funds is in doubt. Selective sales and gross receipts taxes (levies placed on particular commodities or services such as motor fuels, liquor, and public utilities), the next largest source of State income, rose by \$24 million. License collections advanced 10 percent to a total of \$98 million, whereas death and gift tax revenues rose by 34 percent to \$20 million.

### INCREASE IN STATE TAX COLLECTIONS

Fiscal 1955 to 1956



Source: Bureau of the Census, *Detail of State Tax Collections in 1956*.



## COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

October, 1956

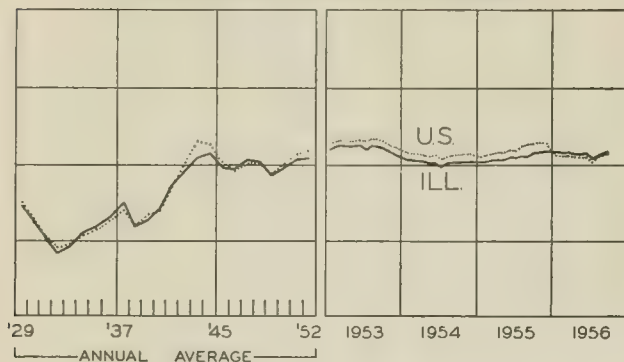
	Building Permits <sup>1</sup> (000)	Electric Power Con- sumption <sup>2</sup> (000 kwh)	Estimated Retail Sales <sup>3</sup> (000)	Depart- ment Store Sales <sup>4</sup>	Bank Deposits <sup>5</sup> (000,000)	Postal Receipts <sup>5</sup> (000)
<b>ILLINOIS</b> .....	\$31,018 <sup>a</sup>	1,062,666 <sup>a</sup>	\$545,467 <sup>a</sup>		\$15,611 <sup>a</sup>	\$14,918 <sup>a</sup>
Percentage change from..... {Sept., 1956.....	-11.2	-2.9	+6.8	+10	+17.9	+9.5
..... {Oct., 1955.....	+8.1	+4.9	+13.2	+1	+13.3	
<b>NORTHERN ILLINOIS</b>						
<b>Chicago</b> .....	\$18,084	805,504	\$393,162		\$14,159	\$12,930
Percentage change from..... {Sept., 1956.....	-23.4	-3.6	+6.0	+11	+18.3	+8.8
..... {Oct., 1955.....	-3.7	+5.2	+17.2	+1	+13.4	
<b>Aurora</b> .....	\$ 421	n.a.	\$ 7,973		\$ 66	\$ 122
Percentage change from..... {Sept., 1956.....	+24.9		+0.9	+7	+7.3	-7.6
..... {Oct., 1955.....	-34.5		+10.7	+5	+13.5	
<b>Elgin</b> .....	\$ 494	n.a.	\$ 6,389		\$ 41	\$ 104
Percentage change from..... {Sept., 1956.....	+60.9		+17.7	+2	-0.7	+17.8
..... {Oct., 1955.....	+61.4		+11.8	-3	+10.4	
<b>Joliet</b> .....	\$ 385	n.a.	\$11,708		\$ 80	\$ 89
Percentage change from..... {Sept., 1956.....	-44.8		+7.5	-2	+8.4	-9.7
..... {Oct., 1955.....	+2.4		+12.5	-2	+11.7	
<b>Kankakee</b> .....	\$ 410	n.a.	\$ 5,039		n.a.	\$ 44
Percentage change from..... {Sept., 1956.....	+83.9		+14.6	n.a.		-0.7
..... {Oct., 1955.....	+81.4		-0.1			
<b>Rock Island-Moline</b> .....	\$1,225	16,505	\$ 9,785		\$ 102 <sup>b</sup>	\$ 144
Percentage change from..... {Sept., 1956.....	+56.9	-25.6	+5.1	n.a.	+13.3	+17.0
..... {Oct., 1955.....	-21.6	-23.9	+4.2		+10.1	
<b>Rockford</b> .....	\$1,769	44,272	\$18,450		\$ 179	\$ 193
Percentage change from..... {Sept., 1956.....	+2.8	+24.3	+10.9	+9 <sup>c</sup>	+6.3	+10.4
..... {Oct., 1955.....	-11.5	+24.1	+9.2	+4 <sup>c</sup>	+12.5	
<b>CENTRAL ILLINOIS</b>						
<b>Bloomington</b> .....	\$ 194	7,914	\$ 5,445		\$ 65	\$ 97
Percentage change from..... {Sept., 1956.....	+9.0	+3.1	+8.8	n.a.	+6.2	+25.1
..... {Oct., 1955.....	-82.3	+6.3	-4.7		+9.9	
<b>Champaign-Urbana</b> .....	\$ 403	10,438	\$ 7,063		\$ 79	\$ 108
Percentage change from..... {Sept., 1956.....	+15.5	+7.5	+4.9	n.a.	+24.1	+27.0
..... {Oct., 1955.....	-7.4	+6.9	-5.9		+12.2	
<b>Danville</b> .....	\$ 348	10,760	\$ 6,546		\$ 61	\$ 65
Percentage change from..... {Sept., 1956.....	+43.8	-5.9	+10.2	+10	+2.0	+27.8
..... {Oct., 1955.....	+91.2	+8.9	-1.7	+2	+13.4	
<b>Decatur</b> .....	\$ 983	31,927	\$11,628		\$ 147	\$ 109
Percentage change from..... {Sept., 1956.....	-16.1	-0.1	+3.9	+7 <sup>c</sup>	+20.2	+1.5
..... {Oct., 1955.....	+29.0	+3.5	-0.4	+1 <sup>c</sup>	+11.7	
<b>Galesburg</b> .....	\$ 183	8,224	\$ 4,273		n.a.	\$ 34
Percentage change from..... {Sept., 1956.....	-5.7	+1.1	+6.9	n.a.		+19.0
..... {Oct., 1955.....	-36.5	+7.0	-1.3			
<b>Peoria</b> .....	\$ 942	51,182 <sup>a</sup>	\$19,126		\$ 253	\$ 243
Percentage change from..... {Sept., 1956.....	-72.4	-5.1	+21.1	+8 <sup>c</sup>	+21.5	+4.3
..... {Oct., 1955.....	+93.0	+1.2	+11.7	+3 <sup>c</sup>	+11.3	
<b>Quincy</b> .....	\$ 612	8,997	\$ 5,080		\$ 44	\$ 56
Percentage change from..... {Sept., 1956.....	+49.6	-7.0	+6.9	+16	+17.4	-2.7
..... {Oct., 1955.....	+121.7	-1.1	-0.9	+1	+3.5	
<b>Springfield</b> .....	\$2,868	32,449 <sup>c</sup>	\$14,316		\$ 127	\$ 242
Percentage change from..... {Sept., 1956.....	+954.4	-2.8	+6.0	0 <sup>c</sup>	+13.3	+28.0
..... {Oct., 1955.....	+710.2	+4.8	-2.5	-5 <sup>c</sup>	+12.6	
<b>SOUTHERN ILLINOIS</b>						
<b>East St. Louis</b> .....	\$1,207	12,612	\$ 9,598		\$ 169	\$ 262
Percentage change from..... {Sept., 1956.....	+66.9	-9.7	+8.2	n.a.	+21.1	+46.1
..... {Oct., 1955.....	+90.4	-9.5	+4.5		+26.4	
<b>Alton</b> .....	\$ 340	15,078	\$ 5,267		\$ 40	\$ 31
Percentage change from..... {Sept., 1956.....	+319.8	+16.0	+10.3	n.a.	+10.8	+5.8
..... {Oct., 1955.....	+102.4	+13.6	+6.5		+6.8	
<b>Belleville</b> .....	\$ 150	6,805	\$ 4,620		n.a.	\$ 47
Percentage change from..... {Sept., 1956.....	-32.7	-13.8	+2.7	n.a.		+15.2
..... {Oct., 1955.....	+21.0	+10.1	-2.8			

<sup>a</sup> Total for cities listed. <sup>b</sup> Includes East Moline. <sup>c</sup> Includes immediately surrounding territory. n.a. Not available.Sources: <sup>1</sup> U. S. Bureau of Labor Statistics. Data include Federal construction projects. <sup>2</sup> Local power companies. <sup>3</sup> Data for August, 1956. Comparisons relate to July, 1956, and August, 1955. <sup>4</sup> Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. <sup>5</sup> Local post office reports. Four-week accounting period ending October 19, 1956.

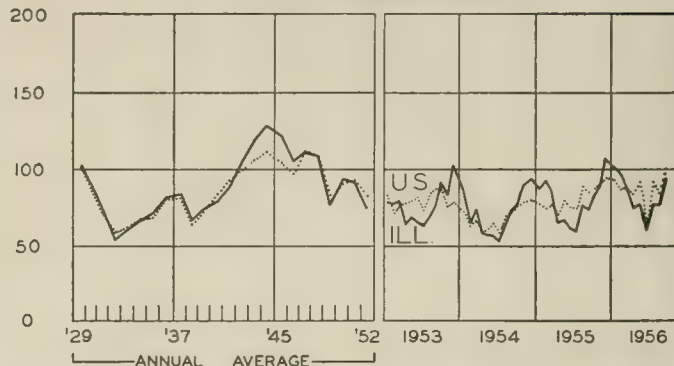
# INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

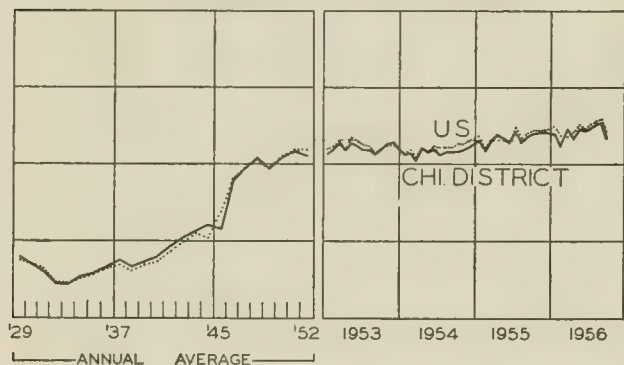
EMPLOYMENT-MANUFACTURING



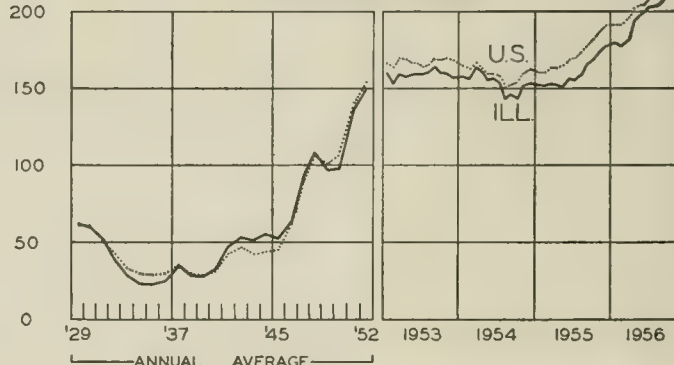
COAL PRODUCTION



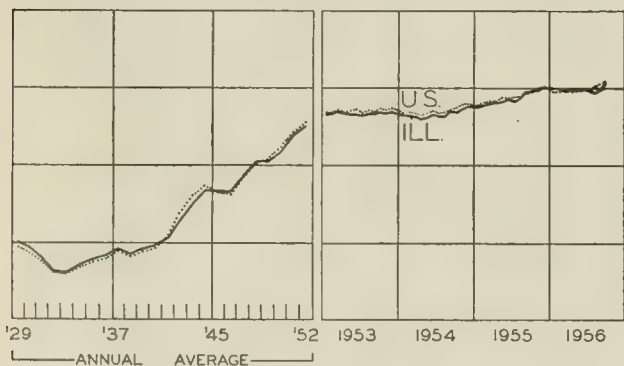
DEPARTMENT STORE SALES



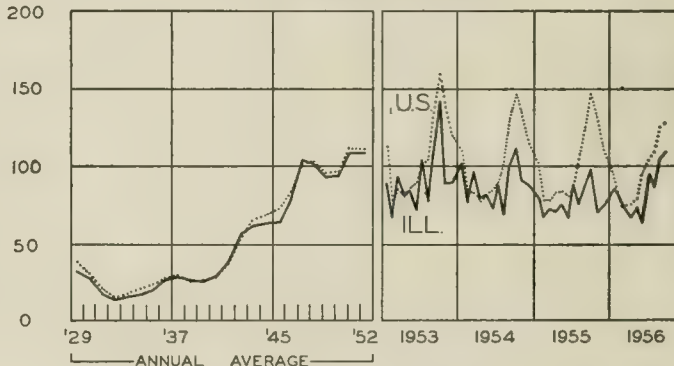
BUSINESS LOANS



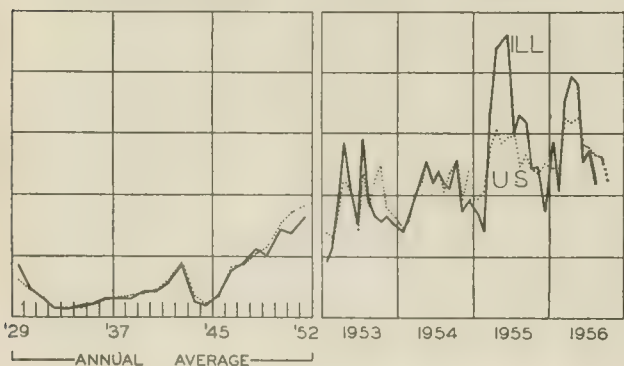
AVG. WKLY. EARNINGS — MANUFACTURING



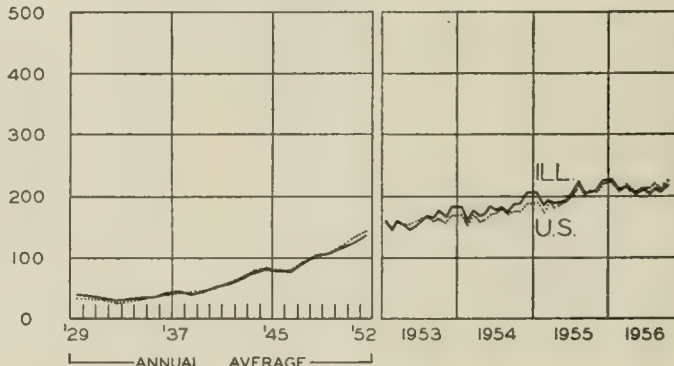
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION

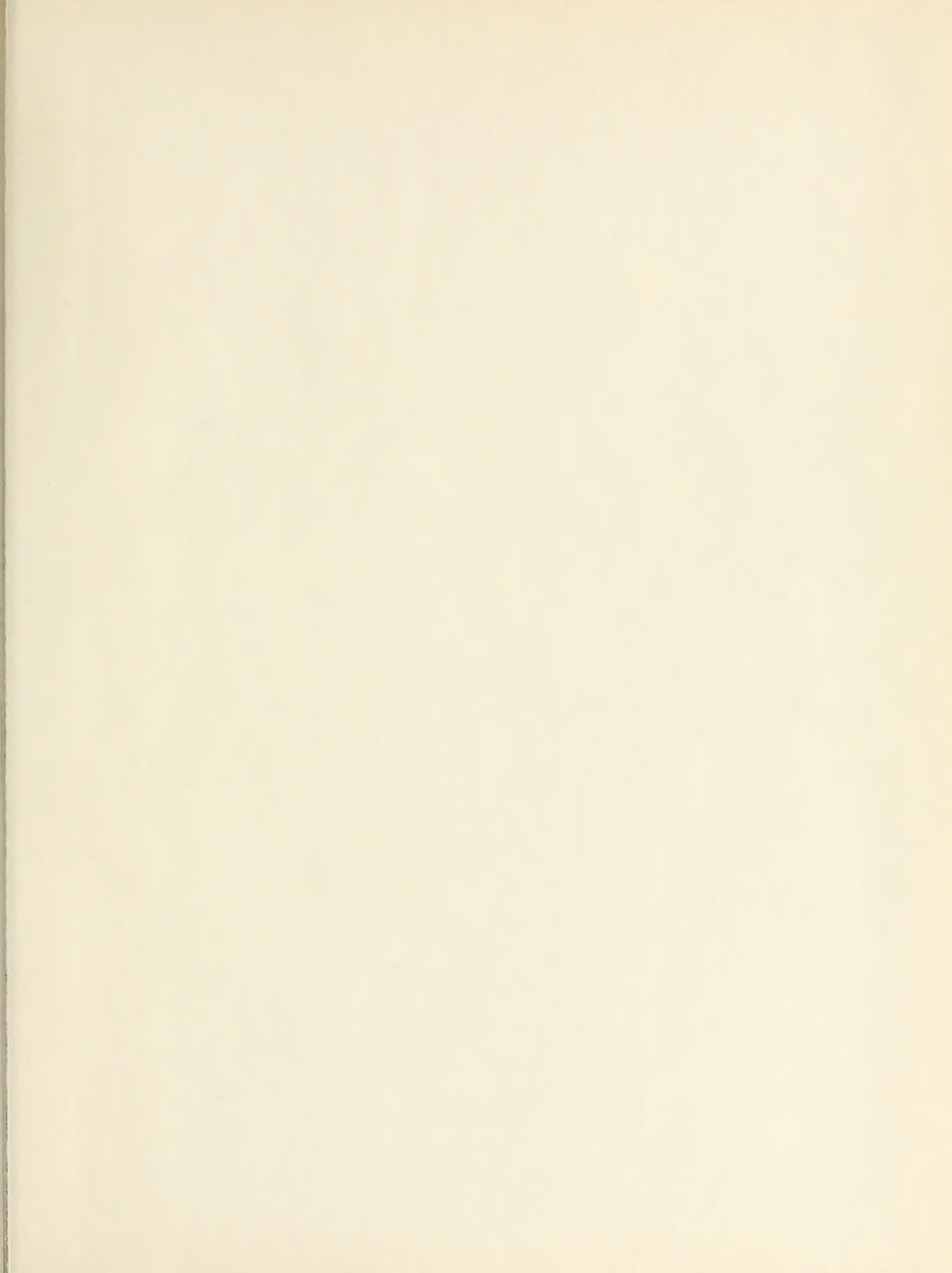






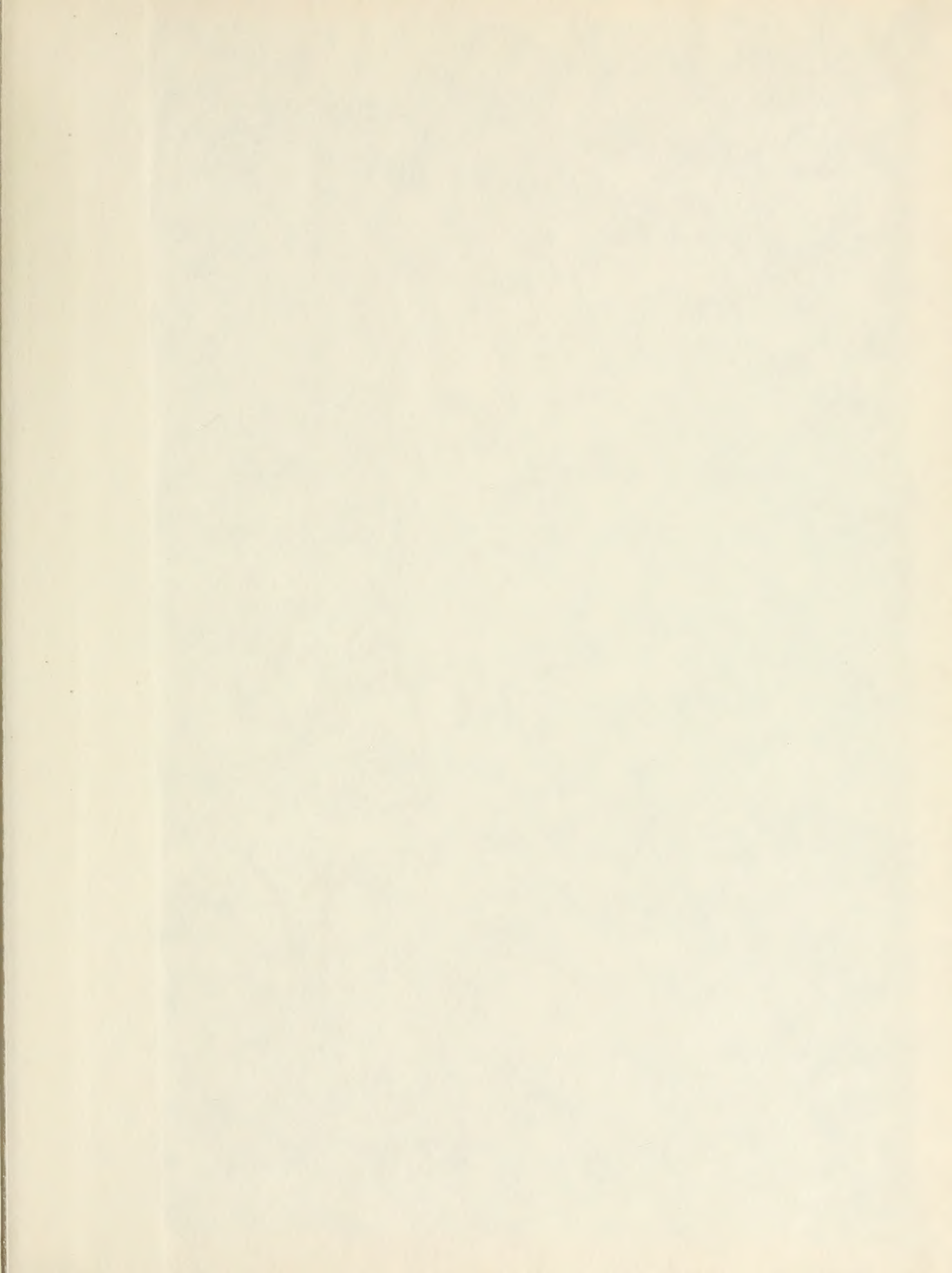








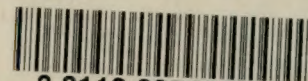






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